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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

1991 FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 1991

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

Commission File Number 33-26703

PROCESSED BY

MAR 31 1992

G-I HOLDINGS INC.**DISCLOSURE
INCORPORATED**Delaware
(State of Incorporation)818 Washington Street,
Wilmington, Delaware
(Address of Principal Executive Offices)13-3483838
(I.R.S. Employer Identification No.)19801
(Zip Code)Registrant's telephone number, including area code: (302) 429-8525
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

As of March 15, 1992, 10 shares of common stock were outstanding. All of the voting stock of the Registrant is held by GAF Corporation

PART I

Item 1. Business

G-I Holdings Inc.

G-I Holdings Inc. (the "Registrant"), incorporated under the laws of Delaware in 1988, is a wholly-owned subsidiary of GAF Corporation. The Registrant holds all of the issued and outstanding stock of G Industries Corp. ("G Industries") which, in turn, owns, directly or indirectly, all the issued and outstanding stock of GAF Building Materials Corporation ("GAF Building Materials") and 80.6% of the issued and outstanding stock of International Specialty Products Inc. ("ISP"). The remaining 19.4% of ISP's common stock is publicly held, and traded on the New York Stock Exchange. The Registrant has its principal offices at 818 Washington Street, Wilmington, Delaware 19801, telephone (302) 429-8525.

GAF Corporation

GAF Corporation (the "Company"), through its subsidiaries including the Registrant, is engaged principally in the manufacture and sale of specialty chemicals and building materials. The Company was incorporated under the laws of Delaware in 1987 and has its principal executive offices at 1361 Alps Road, Wayne, New Jersey 07470, telephone (201) 628-4000. The Company acquired its business on March 29, 1989 by the merger of GAF Corporation, incorporated under the laws of Delaware in 1929 (the "Predecessor Company") with and into a subsidiary of the Company. The Predecessor Company was liquidated on April 10, 1989 and its assets and liabilities were distributed to certain of the Company's other subsidiaries. For further information see Note 1 of the Notes to the Registrant's Consolidated Financial Statements. Except as the context otherwise requires, the "Company" refers to GAF Corporation and its subsidiaries including the Registrant, and the Predecessor Company and its subsidiaries.

The Company's principal domestic operations are conducted through the following subsidiaries: (i) ISP, which through its wholly-owned subsidiaries operates four specialty derivative chemicals plants, three mineral granules plants, four filters plants and one advanced materials plant; (ii) GAF Building Materials, which operates ten roofing plants, one glass fiber plant and one glass mat plant; and (iii) GAF Broadcasting Company, Inc. ("GAF Broadcasting"), which owns and operates a classical music FM radio station, WNCN, in the New York City market. The Company's international operations (consisting principally of international sales of domestically produced specialty derivative chemicals) are conducted through ISP's subsidiaries, branches and independent distributors. In addition, a specialty derivative chemicals plant is operated by GAF-Hüls Chemie GmbH ("GAF Hüls"), a joint venture between ISP and Hüls Aktiengesellschaft, in Marl, Germany.

Financial information concerning the Company's industry segments and international and domestic operations required by Item 1 is included in Notes 13, 14 and 15 of the Notes to the Registrant's Consolidated Financial Statements and Notes 7, 8 and 9 of the Notes to the Predecessor Company's Consolidated Financial Statements.

International Specialty Products Inc.

ISP is a leading multinational manufacturer of specialty chemical products, including specialty derivative chemicals, mineral products, filter products and advanced materials. ISP, incorporated in Delaware in 1991, operates its business exclusively through 15 domestic subsidiaries, 20 international subsidiaries and GAF-Hüls.

In July 1991, ISP completed an initial public offering of 19,388,646 shares, or 19.4%, of its common stock at a price of \$15.50 per share. The net proceeds of \$281.3 million were used to reduce the G Industries outstanding bank term loan. See Notes 3 and 10 of the Notes to the Registrant's Consolidated Financial Statements.

Specialty Derivative Chemicals

Products and Markets. ISP manufactures more than 200 specialty derivative chemicals having numerous applications in consumer and industrial products. Most of ISP's specialty derivative chemicals are

derived from acetylene. Specialty derivative chemicals consist of five main groups of products: vinyl ethers, polymers, solvents, intermediates and specialty preservatives.

Vinyl ether polymers are used in cosmetics and personal care products and pharmaceutical and health-related products, primarily in hair care products, dental care products and detergent formulations. Vinyl ether monomers and oligomers are used in coatings and inks for both consumer and industrial products.

Polyvinyl pyrrolidone polymers are used primarily in cosmetics and personal care products, pharmaceutical and health-related products and food and beverages, such as drug and vitamin tablet disintegrants; clarifiers and chill-hazing agents for beer, wine and fruit juices; microbiocidal products for human and veterinary applications; hair care products such as mousses, conditioners, gels and glazes; ingredients in water-resistant mascara, sunscreen and lipstick; film-formers in polishes for consumer and industrial applications; and a dispersant in agricultural chemical formulations.

Solvents are sold to customers for use in agricultural chemicals, pharmaceuticals, lithography, wire enamel production, adhesives, plastics, electronic microchips and integrated circuits, lubricating oil extraction and gas purification applications. ISP's family of solvents includes N-methyl pyrrolidone, butyrolactone and tetrahydrofuran, certain of which are used by ISP as raw materials in the manufacture of polymers.

Intermediates are manufactured primarily for use by ISP as raw materials in manufacturing solvents, polymers and vinyl ethers. Some intermediates are also sold to customers for use in the manufacture of engineering plastics and elastomers, agricultural chemicals, oil production auxiliaries and other products.

Specialty preservatives are proprietary products that are marketed worldwide to the cosmetics and personal care industries. ISP sells a number of preservative products, including Germall 115, Germall II and Germaben II. Uses include baby preparations, eye makeup, facial makeup, after-shave and nail, bath, hair and skin preparations.

Marketing and Sales. ISP markets its specialty derivative chemicals through a worldwide marketing and sales force, consisting of approximately 250 employees. ISP conducts its marketing and domestic sales from offices strategically located throughout the United States. ISP markets all of its specialty derivative chemicals worldwide. ISP sells its products in 72 countries through 20 subsidiaries and 29 sales offices located in Western and Eastern Europe, Canada, Latin America and the Asia-Pacific region. Services of local distributors are also used to reach markets that might otherwise be unavailable to ISP.

Raw Materials. The principal raw materials used in the manufacture of specialty derivative chemicals are acetylene, formaldehyde, methanol and methylamines. Most of these raw materials are obtained from outside sources pursuant to long-term supply agreements. Acetylene, a significant raw material used in the production of most specialty derivative chemicals, is obtained by ISP for domestic use from two unaffiliated suppliers pursuant to long-term supply contracts. At ISP's Texas City and Seadrift, Texas plants, acetylene is supplied by a large multinational company that generates this raw material as a by-product from ethylene manufacture. At ISP's Calvert City, Kentucky facility, acetylene is supplied by a company that generates it from calcium carbide. The acetylene utilized by GAF-Hüls is produced by Hüls, using a proprietary electric arc process, sourced from various hydrocarbon feedstocks. ISP believes that this diversity of supply sources, using a number of production technologies (ethylene by-product, calcium carbide and the electric arc), tends to create a reliable supply of acetylene. In the event of a substantial interruption in the supply of acetylene from current sources, no assurances can be made that ISP would be able to obtain as much acetylene from other sources as would be necessary to meet its supply requirements. ISP has not experienced an interruption of its acetylene supply that has had a material adverse effect on its sales of specialty derivative chemicals.

With regard to raw materials other than acetylene, ISP believes that in the event of a supply interruption it could obtain adequate supplies from alternate sources. Raw materials derived from petroleum or natural gas are used in many of ISP's manufacturing processes and, consequently, the price and availability of petroleum and natural gas could be material to ISP's operations. During the latter part of 1990, crude oil prices increased due to the crisis in the Middle East. Despite such increases, ISP continued to obtain an adequate supply of petroleum-based raw materials as a result of spot market purchases from a number of suppliers. During 1991, the Company obtained and expects to continue to obtain adequate supplies of these products at reasonable costs, although there can be no assurance that it will continue to do so.

Mineral Products

Products and Markets. ISP manufactures mineral products consisting of ceramic colored roofing granules, which are produced from rock deposits that are mined and ground at ISP's quarries and colored using a ceramic chemical coating process. ISP's mineral roofing granules are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring, heat deflection and increased weight. ISP is one of only two major suppliers of colored roofing granules in North America, the other being Minnesota Mining & Manufacturing Company. ISP also markets granule by-products for use as mineral filler for asphalt roofing products and the construction of clay tennis courts.

ISP estimates that more than 80% of the asphalt shingles currently produced by the roofing industry are sold for the reroofing/replacement market, in which demand is driven not by the pace of new home construction but by the needs of homeowners to replace existing roofs. ISP estimates that the balance of the roofing industry's asphalt shingle production historically has been sold primarily for use in new housing construction. Sales of ISP's colored mineral granules have benefited from a trend toward the increased use of heavyweight, three-dimensional laminated roofing shingles, which require, on average, approximately 40% more granules than traditional three-tab, lightweight roofing shingles.

Marketing and Sales. ISP's mineral products are sold to asphalt roofing manufacturers throughout the United States. GAF Building Materials purchases 100% of its colored roofing granule requirements from ISP (except for the requirements of its California roofing plant) under a contract that expires December 31, 1993. These purchases constitute approximately 37% of the Company's mineral products net sales.

Raw Materials. ISP owns rock deposits that have specific performance characteristics, including weatherability, the ability to reflect UV light, abrasion-resistance, non-staining characteristics and the ability to absorb pigments. ISP owns three quarries, each with proven reserves, based on current production levels, of more than 20 years. ISP has in recent years purchased land adjacent to its quarries for potential additional reserves.

Filter Products and Advanced Materials

ISP manufactures filter products, consisting of pressure filter vessels, filter bags, filter systems, cartridges and cartridge housings. These filter products are designed for the treatment of process liquids in the paint, automotive, chemical, pharmaceutical, petroleum and food and beverage industries.

While the primary market for ISP's filter products has traditionally been in Europe, three years ago ISP began to expand its market penetration in the Asia-Pacific region. ISP in 1990 entered the United States market, establishing domestic distribution facilities in Michigan.

ISP manufactures a variety of advanced materials, consisting of high-purity carbonyl iron products, sold under ISP's trademark Micropowder™, used in a variety of advanced technology applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical and food industries. It also produces a grade of iron product, sold under the trademark Ferronyl®, for use as a vitamin supplement.

The primary market for ISP's advanced materials is the domestic defense industry, which employs these products in a variety of coating systems for stealth purposes in aircraft and naval ships.

Competition

ISP believes that, except for butanediol and tetrahydrofuran, it is either the first or second largest seller worldwide of most of its specialty derivative chemicals. ISP's major competitor is BASF Aktiengesellschaft ("BASF"). Butanediol, which ISP produces primarily for use as a raw material, is also manufactured by a limited number of companies in the United States, Germany and Japan. Tetrahydrofuran is manufactured by a number of companies throughout the world. While there are companies, other than ISP and BASF, that manufacture a limited number of the Company's other specialty derivative chemicals, the market position of these companies is much smaller than that of the Company. In addition to the ISP's competition as noted

above, there are other companies that produce substitutable products for a number of ISP's specialty derivative chemicals.

With regard to its mineral products, ISP has only one major and one smaller competitor. With respect to filter products, ISP competes with a number of companies worldwide. With respect to advanced materials, ISP is the sole domestic manufacturer of carbonyl iron powders and one of only two manufacturers worldwide.

Research and Development

ISP's research and development department, consisting of approximately 200 persons dedicated principally to specialty derivative chemicals, is located primarily at the ISP's worldwide technical center and laboratories in Wayne, New Jersey. Additional research and development is conducted at ISP's Calvert City, Kentucky and Texas City, Texas plant sites, Chatham, New Jersey facility and laboratories in the United Kingdom and Singapore.

ISP's mineral products research and development facility, together with its recently opened customer design and color center, is located at Hagerstown, Maryland.

Research and development expenses for both ISP and GAF Building Materials are presented in Note 2 to the Notes to the Consolidated Financial Statements of the Registrant and Note 1 of the Notes to the Predecessor Company's Consolidated Financial Statements.

Patents and Trademarks

ISP owns approximately 413 domestic and 216 foreign patents and owns or is the exclusive licensee of approximately 60 domestic and 850 foreign trademark registrations related to the business of ISP. ISP does not believe that any of its patents, patent applications or trademarks is material to its business or operations.

GAF Building Materials Corporation

GAF Building Materials manufactures and sells roofing materials to the residential and commercial roofing industries.

Residential Roofing. GAF Building Materials is a leading manufacturer of a complete line of residential roofing products.

GAF Building Materials' principal products are its Sentinel, Royal Sovereign, Marquis, GAF Wood Line, Timberline, Timberline Ultra and Slateline shingles. All of GAF Building Materials' shingles have a Class A fire rating. Shingles are made from glass fiber mat, coated with waterproofing asphalt on both sides and surfaced with ceramic coated mineral granules. Sentinel shingles are GAF Building Materials' standard strip shingle and residential volume leader. Royal Sovereign shingles are designed to capitalize on the emerging "middle market" for quality roofing shingles at a slightly higher price than standard Sentinel shingles. Marquis shingles serve as GAF Building Materials' premier 3-tab shingle. The GAF Wood Line shingle, a mid-weight laminated asphalt product, is gaining wide acceptance by builders and contractors as an economical trade-up for buyers of strip shingles. Timberline premium roofing shingles are a heavyweight laminated product which offers the appearance of a wood shake shingle but with superior fire resistance and durability. Timberline Ultra shingles are super heavyweight shingles. GAF Building Materials' Slateline shingles are asphalt shingles which offer the appearance of slate and labor savings because of their large size.

Other products include Timbertex Hip & Ridge shingles, Shingle-Mate underlayment and Weather Watch ice and water barrier, a waterproof underlayment, which enable GAF Building Materials to offer a complete system of residential roofing components.

Commercial Roofing. GAF Building Materials markets a full line of built-up roofing and modified bitumen products and accessories for use in the application of commercial roofing. Most of these commercial products are assembled on the roof by applying successive layers of roofing membrane with asphalt and topped, in some applications, with gravel. Thermal insulation may be applied beneath the membrane.

GAF Building Materials manufactures a glass membrane under the trademark GAFGLAS, which is made from asphalt impregnated glass fiber mat for use as a component in built-up roofing systems. GAF Building Materials also manufactures base sheets, flashings and packaged asphalt for use in these systems. In addition, GAF Building Materials sells isocyanurate foam and perlite insulations and accessories such as vent stacks, roof insulation fasteners, cements and coatings.

Modified bitumen products are sold under the Ruberoid trademark and have proven very successful, especially in re-roofing applications. These products consist of a roofing membrane utilizing polymer-modified asphalt, which strengthens and increases flexibility, which is reinforced with a polyester nonwoven mat. Modified bitumen systems provide high strength characteristics, such as weatherability, water resistance, and labor cost savings due to ease of application.

Raw Materials. The major raw materials required for the manufacture of GAF Building Materials' roofing products are asphalt, glass fiber, glass fiber mat, mineral stabilizer (generally crushed or pulverized limestone) and granules. Asphalt and mineral stabilizer are available from a large number of suppliers. GAF Building Materials currently has contracts with several of these suppliers, with others available as substitutes. Prices of most raw materials have been reasonably stable, rising moderately with general industrial prices. The price of asphalt tends to move in step with the price of crude oil which decreased over 1991. Five of GAF Building Materials' roofing plants have easy access to deep water ports allowing delivery of asphalt by ship, the most economical means of transport. GAF Building Materials has a plant which makes glass fiber mat for internal consumption and one plant which manufactures chopped glass fiber for mat substrate, permitting complete integration of the roofing manufacturing process. GAF Building Materials has obtained, and expects to continue to obtain, supplies of raw materials at reasonable costs, although there can be no assurance that it will do so. See "International Specialty Products Inc. — Mineral Products."

Patents and Trademarks. GAF Building Materials owns approximately 50 domestic and 56 foreign patents and is a licensee with respect to approximately 38 domestic and 6 foreign trademark registrations. The Company believes the patent protection covering certain of its products to be material to those products, but patents are not of material significance to the business of GAF Building Materials, or to the industry generally. The duration of the existing patents and patent licenses is deemed satisfactory.

Seasonal Variations and Working Capital. Sales of roofing products in the northern regions of the United States generally decline during the winter months due to adverse weather conditions. To maintain a more constant level of manufacturing and sales, GAF Building Materials may follow the practice of "winter dating" in such regions, pursuant to which advantageous extended credit terms are offered to creditworthy customers who order and accept delivery of roofing products during the winter months.

Generally, GAF Building Materials' inventory practice includes increasing inventory levels throughout the first quarter in order to meet peak season demand (April through October).

Marketing and Sales. GAF Building Materials markets its roofing products through its own sales force with district sales offices located across the United States. A major portion of its sales are to wholesale distributors who resell to roofing contractors and retailers who sell to the consumer market.

Competition. The roofing products industry is highly competitive and includes at least four major competitors, including GAF Building Materials, and numerous smaller regional competitors. Because the roofing products industry is composed of several regional markets, it is difficult to determine with precision GAF Building Materials' relative competitive position. Competition is based largely upon products and service quality, distribution capability, price and credit terms. GAF Building Materials is well positioned in the marketplace as a result of strong sales and distribution capabilities, favorable raw material costs and broad product lines.

Research and Development. GAF Building Materials is engaged in new products development and process improvements which have led to cost savings and increased manufacturing efficiencies. In the first quarter of 1992, GAF Building Materials introduced the Ruberoid 20/30 fiberglass reinforced modified bitumen product line. In 1991, GAF Building Materials introduced the Marquis shingle, a premier 3-tab shingle which features GAFLEX coating, which allows all-season handling, and GAFGRIP® self-sealant which allows the shingles to adhere at temperatures 15 degrees lower than conventional adhesives.

For several years, prices in the roofing industry have declined. To meet this trend, GAF Building Materials maintains aggressive programs to reduce raw material and other costs, increase automation of production facilities, introduce new products, emphasize sales of profitable high value-added products and maintain sales at a relatively high level in relation to plant capacities.

GAF Broadcasting Company, Inc.

GAF Broadcasting owns and operates WNCN, 104.3-FM, a commercial radio station broadcasting classical music and cultural programs in the New York City metropolitan area. WNCN is on the air 24 hour hours a day, 7 days a week.

Environmental Compliance

The discussion as to asbestos-related and environmental lawsuits involving the Company, and appearing in response to "Item 3. Legal Proceedings," is incorporated herein by reference.

Since 1970, a wide variety of federal, state and local environmental laws and regulations have been adopted and continue to be adopted and amended. By reason of the nature of the Company's past and present operations and certain of the substances which are, or have been used, produced or discharged by the Company's plants or other locations, the Company is affected by these laws and regulations.

The Clean Air Act, Clean Water Act, Safe Drinking Water Act, and similar or local counterparts of those federal laws regulate air and water emissions or discharges into the environment. The Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund") and the Superfund Amendments and Reauthorization Act of 1986, among others, address the storage, treatment, transportation and disposal of solid waste, and releases, and preparedness in the event of releases, of hazardous substances to the environment. The Company's current operations necessitate compliance with the Toxic Substances Control Act and related laws designed to assess the risk to health or the environment at early development stages for new products. Workplace safety and health standards are regulated by the Occupational Safety and Health Act. Laws already adopted or proposed in various states require that industrial property be environmentally sound before it can be transferred or sold.

The Company believes that compliance with environmental control requirements as presently interpreted and enforced will not materially affect its capital expenditures, business or financial position in the industries in which it is engaged. See Note 17 of the Notes to the Registrant's Consolidated Financial Statements.

Employees

The Registrant has no employees other than its officers.

At December 31, 1991, the Company employed approximately 4,075 people worldwide. At such date, approximately 1,473 employees in the United States and Canada were subject to 20 union contracts, which are effective in most cases for two- or three-year periods. Of these contracts, 5 expired and were renegotiated in 1991. The Company is currently negotiating a contract with a new bargaining unit that was recently certified. The Company believes that its relations with its employees and their unions is satisfactory.

The Company has in effect various benefit plans which include a capital accumulation plan for its salaried employees and certain of its hourly employees, a flexible benefit plan for its salaried employees, a non-contributory defined benefit retirement plan for its hourly employees, group insurance agreements providing life, accidental death, disability, hospital, surgical, medical and dental coverage and a non-qualified retirement plan for a group of executives. In addition, the Company has contracted with various health maintenance organizations to provide medical benefits. The Company and, in many cases, the employees contribute to the cost of these plans.

Recent Events

In March 1992, ISP Chemicals and ISP Technologies (the "Issuers"), subsidiaries of ISP, issued \$200 million of 9% Senior Notes (the "Notes"), due 1999. The Notes are guaranteed by ISP and certain of its

Subsidiaries (the "Subsidiary Guarantors"). The net proceeds from the issuance of the Notes were paid as dividends by the Issuers to ISP and used by ISP to repay a portion of an intercompany term note to G Industries, and by G Industries to repay a portion of its bank term loan under a Credit Agreement dated September 17, 1990 among G Industries, the lenders party thereto, The Bank of New York, The Bank of Nova Scotia, Banque Paribas and The Chase Manhattan Bank (National Association), as Co-Agents and co-arrangers, and The Chase Manhattan Bank (National Association), as administrative agent (the "Credit Agreement"). In addition, the Registrant's guarantee of the G Industries loans has been terminated.

The Notes are general, unsecured obligations of the Issuers. Upon issuance of the Notes, the Credit Agreement was amended, with the Issuers assuming G Industries' obligations under the Credit Agreement, including the \$105 million term loan and a combined \$200 million revolving credit/letter of credit facility (except for obligations related to letters of credit issued on behalf of subsidiaries of G Industries other than ISP, and its subsidiaries, which are limited to \$40 million). In addition, all liens on assets of ISP the Issuers and the Subsidiary Guarantors securing the indebtedness under the Credit Agreement were released, with the result that the remaining bank indebtedness and the Notes rank *pari passu*.

Item 2. Properties

The corporate headquarters, principal research and development laboratories, general administrative and financial operations and principal electronic data processing facility of the Company and of ISP's administrative subsidiary and GAF Building Materials, are located on approximately 100 acres of land and in 10 buildings at 1361 Alps Road, Wayne, New Jersey 07470. The facilities and land are owned by a wholly-owned subsidiary of ISP. The premises are subject to a first mortgage.

The Registrant maintains its principal office in leased space at 818 Washington Street, Wilmington, Delaware 19801.

The WNCN-FM studio and GAF Broadcasting are located in leased offices at 1180 Avenue of the Americas, New York, New York 10036.

The Company's principal domestic and international real properties are either owned by, or leased to, the Company or its subsidiaries as described in the list below. Unless otherwise indicated, the properties are owned in fee. In addition to the principal facilities listed, the Company maintains sales offices and warehouses in the United States and in twenty four foreign countries, substantially all of which are in leased premises under relatively short-term leases.

Location	Facility	Segment
DOMESTIC		
Alabama		
Huntsville	Plant*	ISP
Mobile	Plant	GAF Building Materials
California		
Fontana	Plant, Sales Office	GAF Building Materials
Florida		
Tampa	Plant, Sales Office	GAF Building Materials
Georgia		
Savannah	Plant, Sales Office	GAF Building Materials
Indiana		
Mount Vernon	Plant, Sales Office	GAF Building Materials
Kentucky		
Calvert City	Plant	ISP
Maryland		
Baltimore	Plant	GAF Building Materials
Hagerstown	Research Center, Design Center, Sales Office	ISP
Massachusetts		
Millis	Plant, Sales Office	GAF Building Materials
Michigan		
Livonia	Warehouse, Distribution Center*	ISP

Location	Facility	Segment
Minnesota Minneapolis	Plant, Sales Office, Warehouse*	GAF Building Materials
Missouri Annapolis	Plant, Quarry	ISP
New Jersey Bound Brook	Sales Office*	ISP
Chatham	Plant, Sales Office*, Research Center	ISP
Wayne	Headquarters, Administrative Offices, Research Center	Corporate GAF Building Materials ISP
New York New York	Office*, Studios*	GAF Broadcasting
Pennsylvania Blue Ridge Summit	Plant, Quarry	ISP
Erie	Plant, Sales Office	GAF Building Materials
South Carolina Chester	Plant	GAF Building Materials
Tennessee Nashville	Plant, Research Center	GAF Building Materials
Texas Dallas	Plant, Sales Office	GAF Building Materials
Seadrift	Plant	ISP
Texas City	Plant	ISP
Wisconsin Pembine	Plant, Quarry	ISP
INTERNATIONAL		
Belgium Sint-Niklaas	Sales Office, Distribution Center	ISP
Brazil Sao Paulo	Plant*, Sales Office*, Distribution Center*	ISP
Canada Mississauga, Ontario	Plant*, Sales Office*, Distribution Center*	ISP
Great Britain Guildford	European Headquarters*, Research Center	ISP
Singapore Southpoint	Sales Office*, Distribution Center*, Asia Pacific Headquarters*, Warehouse*	ISP
Affiliate: GAF-Hüls Chemie GmbH Marl, Germany	Plant, Sales Office	ISP

* Leased Property

The Company believes that its plants and facilities, which are of varying ages and are of different construction types, have been satisfactorily maintained, are in good condition and are suitable for the Company's operations and generally provide sufficient capacity to meet the Company's production requirements. Each plant has adequate transportation facilities for both raw materials and finished products. In 1991, the Company invested \$45.7 million in new plant, property and equipment. Of this total, the following expenditures were or are allocable to ISP and GAF Building Materials (dollars in millions):

	1991
ISP	\$34.4
GAF Building Materials	11.3

Item 3. Legal Proceedings

As of December 31, 1991, the Company was named as a co-defendant, together with numerous other companies, in approximately 69,000 pending lawsuits involving alleged health claims relating to the inhalation of asbestos fiber. The Company has resolved approximately 73,000 other lawsuits involving similar claims through December 31, 1991. The cost to the Company of resolving such insurers in connection with settlement agreements between, *inter alia*, the Company and such lawsuits has been covered in all material respects by insurance or by funds received from certain insurers in connection with settlement agreements between, *inter alia*, the Company and such insurers. It is anticipated that additional suits will be filed by persons allegedly exposed to asbestos at sites where it is claimed asbestos containing materials manufactured by the Company and others may have been used. It is impossible to predict the number of such additional lawsuits. In 1971, the Company discontinued the sale of its principal asbestos insulation products and, in 1975, withdrew from the sale of all asbestos products except products in which the asbestos fiber was fully bonded or encapsulated, which products the Company discontinued in 1981.

In May 1979, the Company commenced an action in the Los Angeles, California Superior Court against fifteen of its insurance carriers to obtain a judicial determination that such carriers are obligated to defend and indemnify the Company, under policies issued from 1947 to 1979, in all present and future asbestos bodily injury cases. In addition, the Company sought compensatory and punitive damages for breach of insurance contracts, violations of the California Insurance Code, bad faith and certain other claims. The action was later consolidated in the San Francisco Superior Court with actions by other asbestos producers against their insurers. Trial commenced in March 1985, and in preliminary decisions in various phases of this case the Court held, *inter alia*, that the insureds are entitled to coverage for asbestos bodily injury claims under all insurance policies in effect from the date of the claimant's initial exposure through the earlier of diagnosis of disease or death; that the Company may utilize certain insurance policies issued to the Company before the 1967 merger with The Ruberoid Co. to pay for asbestos bodily injury claims; that the Company may allocate responsibility among the Company's insurers for these claims on bases favorable to the Company; and that periods when the Company was uninsured self-insured, or had insurance with deductibles or retentions are not considered "other insurance" which would be available to the Company's insurers when they allocate monies paid for such claims amongst themselves. The Court also approved, as reasonable, settlement agreements between, *inter alia*, the Company and certain of its insurers. The remainder of the trial continued with respect to parties and issues not involving the Company. Final judgment on all phases of the trial was entered by the Court on February 8, 1990. The judgment has been appealed by various parties. The appeal is expected to be heard in the second quarter of 1992.

In January 1987, the Company entered into settlement agreements with five of its defendant-carriers in the California litigation described above (whose coverage constituted the major portion of the insurance coverage at issue under such litigation). These five settlements resolved all of the Company's outstanding claims against these insurers with respect to their asbestos bodily injury coverage and provides the Company with substantial insurance with respect to pending and prospective asbestos bodily injury claims and related expenses. These carriers were dismissed from that litigation. The Company's suit against the remaining ten insurers in that litigation continued. In April 1990, subsequent to the entry of the aforesaid final judgment, however, four of those remaining insurers entered into a settlement agreement with the Company confirming the availability of their coverage for asbestos bodily injury claims.

In connection with the January 1987 settlements described above, the Company joined the Wellington Asbestos Claims Facility (the "Facility"), an organization of insurance companies and asbestos producers formed in 1985 to coordinate the administration of asbestos bodily injury claims. From and after January 1987, the Facility assumed defense and settlement of the Company's pending, threatened and future asbestos bodily injury claims. The Company's share of the costs of settlements, judgments and legal expenses with respect to all claims handled by the Facility, were borne by the Facility, which was reimbursed by the Company's insurers on the basis of the amounts provided under the Facility's agreement with the Company, and to the extent of the coverage afforded the Company under its policies of insurance and the aforesaid settlement agreements. At the same time, the Company entered into a separate agreement with another insurer, with which the Company had previously settled its insurance coverage claims, so as to conform the

Company's arrangement with such insurer regarding such settlements and with the Company's entry into the Facility.

In October 1988, the Facility was formally dissolved. Effective as of that same date, the Company joined a newly-formed claims-handling organization, called the Center for Claims Resolution (the "Center"), currently composed of approximately 20 producers, which functions generally in the same fashion as did the Facility with respect to the handling of all pending, threatened and future asbestos bodily injury claims on behalf of the Company and the other members of the Center. As of December 31, 1991, there were approximately 78,900 pending claims being handled by the Center, a portion of which claims have previously been disposed of separately by the Company and for which the Company will not bear a share of responsibility as a member of the Center. The Center has no insurer members, but a group of insurers, composed generally of the same insurers who were members of the Facility, have agreed to abide by the allocation percentages for liability and defense expenses established among the Center's members, and to pay their (the insurers') respective shares of such allocated liability and defense expenses, based on the insurance coverage provisions established pursuant to the June 1985 Agreement under which the Facility had been established. These insurers have also agreed to share with the Center's members a portion of the operating expenses of the Center. Additionally, under the agreement establishing the Center, any member can withdraw from the Center upon 60 days' prior notice. In connection with joining the Center, the Company entered into a separate agreement with a group of eight insurers providing the Company, in lieu of the Insurance Defense Program (available to the Company as a member of the Facility) which was discontinued when the Facility was dissolved, with additional coverage which will be available to the Company to pay asbestos bodily injury claims and related expenses when all other insurance coverage and other funding sources available to the Company for the payment of asbestos related claims have been exhausted (the "Additional Coverage"). The Additional Coverage will be available to the Company regardless of whether the Company remains a member of the Center. The Company's existing insurance coverage under its insurance policies and settlement agreements will also remain in effect notwithstanding the dissolution of the Facility or whether the Company remains a member of the Center or joins and/or remains a member of any other claims-handling organization.

In October 1986, the Company commenced a declaratory judgment action in Los Angeles, California Superior Court with respect to the obligations for asbestos bodily injury coverage of certain underwriters at Lloyd's and British insurance companies under liability policies issued to the Company for the years 1979 to 1983. In February 1989, the Company and these defendant insurers entered into a settlement agreement whereby, subject only to modification of applicable deductibles of the policies involved, the availability and accessibility of this post-1979 coverage for asbestos bodily injury claims has been confirmed.

In the opinion of management, with respect to the aforesaid health claim lawsuits, the ultimate disposition of such lawsuits will not have a material adverse effect on the Company's financial position.

As of December 31, 1991, the Company, together with numerous other companies, was named as a codefendant in approximately 37 pending actions, commenced by school districts, municipalities and similar governmental entities and building owners which allege economic and property damage or other injuries in schools or public and private buildings caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from those premises. The Company did not sell asbestos spray or acoustical ceiling products, which are the primary products presently being removed from buildings. The Company, as of December 31, 1991, has been dismissed from approximately 100 similar actions without any payments and has resolved nine others for immaterial amounts, all of which amounts have been covered by insurance. The Company has gone to trial in two cases, both in Colorado. In the first case in March 1992, the United States Court of Appeals for the Tenth Circuit reversed a jury award of approximately \$14,000 against the Company and ordered the District Court to enter a directed verdict in favor of the Company. In the second trial, the jury found in favor of the Company.

The plaintiffs in asbestos-in-buildings cases seek to recover the cost of inspections, removal and/or the replacement of asbestos materials plus health screening examinations, counsel fees and expenses incurred in connection with litigation and compensatory and punitive damages. Most of these actions are still in early pre-trial stages. One of these lawsuits, in the United States District Court for the Eastern District of Pennsylvania, has been certified as a class action for certain issues, including punitive damages. Trial of a portion of this

case, which had been scheduled for February 3, 1992, has been stayed pending a decision by the United States Court of Appeals for the Third Circuit on petitions filed by various defendants seeking to have the District Court judge recuse himself from the case.

In October 1983, the Company filed a lawsuit in Los Angeles, California Superior Court against its past insurance carriers to obtain a judicial determination that such carriers were obligated to defend and indemnify the Company in the asbestos-in-buildings cases referred to above. The Company is seeking declaratory relief as well as compensatory damages. This action is presently in the pre-trial pleading stage. The parties have agreed to hold this action in abeyance until such time as they are better able to evaluate developments as they may occur in the underlying asbestos-in-building cases. One of the Company's insurance carriers is currently paying, under reservations of rights, all costs of defense of the asbestos-in-building litigation. Because such litigation is in early stages and evidence and interpretations of important legal questions are presently unavailable, it is not possible to predict the future of such litigation.

In the opinion of management, with respect to the aforesaid asbestos-in-buildings lawsuits, the ultimate disposition of such lawsuits will not have a material adverse effect on the Company's financial position.

The Company has certain liabilities under New Jersey statutes and regulations relating to the closing of its plant in Linden, New Jersey (the "Linden Site"). In June 1989 and June 1990, the Company entered into two Administrative Consent Orders (the "ACOs") with the New Jersey Department of Environmental Protection and Energy ("NJDEPE") under the New Jersey Spill Compensation and Control Act, among other New Jersey laws, which establish deadlines for the Company to (i) comply with surface water discharge standards and (ii) develop a remediation plan for the Linden Site. Pursuant to the latter ACO, the Company posted letters of credit aggregating \$7.5 million to cover the anticipated costs of remediation; however, there can be no assurance as to the actual costs that will be incurred in connection with such remediation.

The Company is a party to a variety of proceedings and lawsuits involving environmental matters, including being named as defendant, respondent or a potentially responsible party, together with other companies, under CERCLA and similar state laws, in which recovery is sought for the cost of cleanup of contaminated waste disposal sites. These proceedings and lawsuits are, for the most part, in the early stages and, due to the practices of waste disposal haulers and disposal facilities prior to adoption and implementation of the environmental laws and regulations, evidence is difficult to obtain or evaluate.

The Company is seeking dismissal of a number of the lawsuits and proceedings on the ground that there appears to be no substantial evidence of the Company's responsibility for any hazardous waste present at certain of the sites in question. At each site, the Company anticipates, although there can be no assurance, that liability, if any, will eventually be apportioned among the companies found to be responsible for the presence of hazardous waste at the site. Based on facts presently available, it is not possible to predict the eventual cost to the Company in these environmental matters. In the opinion of management, these environmental matters should be resolved gradually over a period of years for amounts that in the aggregate will not be material to the business or financial position of the Company.

The Company has an agreement with its comprehensive general liability insurers to cover, under a reservation of rights, the majority of the Company's liability and expenses in connection with these administrative proceedings and lawsuits. Pursuant to the agreement, the insurers pay costs of the Company in defending these administrative proceedings and lawsuits and reimburse the Company for more than a majority of its liabilities. Each insurer who is a party to this agreement is rated at least "A" by a leading independent insurance rating service, as a result of which the Company believes that the insurers have the ability to make payments pursuant to the agreement, although no assurances can be given. The Company also believes that the amount of insurance available under the policies pursuant to which the expenses and liabilities are being paid will be sufficient to cover the Company's expenses and that portion of the Company's estimated liability agreed to be paid by such insurers. In addition, the Company has established a reserve to cover costs in connection with these administrative proceedings and lawsuits.

The Texas Water Commission ("TWC") has filed an amended administrative enforcement petition with respect to the Company's Texas City, Texas manufacturing facility seeking a revised civil penalty of \$601,200 for alleged violations of TWC financial assurance requirements, a failure to complete closure of regulated

waste units in accordance with closure plan schedules and improper maintenance of two waste container storage areas. The Company is currently contesting the alleged violations and, although it is not possible to determine what the ultimate amount of the civil penalty, if any, will be, based on on-going discussions with the TWC, the Company believes that it will be lower than the amount sought in the enforcement petition which is based in part upon the length of time that the violations have been pending.

On March 8, 1990, GAF and a former GAF officer, without admitting or denying the allegations in a proposed complaint by the Commission, consented to the entry of judgments enjoining GAF and its subsidiaries (which include the Registrant) and their respective directors and officers from violating Sections 10(b), 13(b)(2)(A) and 13(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act"), and Rules 10b-5 and 13d-2 thereunder, and from aiding and abetting violations of Section 13(b)(2)(A) and 13(d)(2) of the Exchange Act and Rule 13d-2 thereunder. GAF also paid a fine of \$1.25 million in connection with the judgments. The proposed complaint arose out of allegations that the defendants attempted to increase the price of Union Carbide Corporation ("Union Carbide") common stock on October 29 and 30, 1986 in connection with the disposition by GAF of a portion of its Union Carbide Stock position.

In September and October 1988, two purported class actions were filed in the United States District Court for the District of New Jersey against GAF, certain of the Registrant's affiliates and current and former directors, including Mr. Heyman and Mr. Eckardt. The actions were commenced by two former stockholders of GAF on their own behalf and on behalf of other stockholders similarly situated who purchased shares of GAF between October 2, 1986 and July 6, 1988. The complaints allege certain violations of the Exchange Act, common-law fraud and negligent misrepresentation, arising from the charges set forth in the aforesaid judgments. The defendants have denied the allegations of the complaints and management believes that their ultimate disposition will not have a material adverse effect on the Company's financial position.

In November 1988, the Mass Media Bureau of the Federal Communications Commission ("FCC") approved the application filed in March 1988 by the Predecessor Company for authority to transfer control of its subsidiary, GAF Broadcasting Company, Inc., as licensee of WNCN-FM, in connection with the then proposed Acquisition, which was subsequently consummated in March 1989. (See "Item 1. Business of the Company — Corporate Developments," for a description of the Acquisition.) In December 1988, Listeners' Guild, Inc., a New York not-for-profit corporation, composed of individual radio listeners, whose petition to deny the transfer application had been denied by the FCC in November 1988, filed a petition with the FCC for reconsideration of the FCC's grant of approval, which petition is still pending. In February 1991, GAF Broadcasting filed an application with the FCC to renew, for an additional seven years, its license to operate WNCN. In May 1991, the Guild and two other parties filed petitions with the FCC to deny renewal of the GAF Broadcasting license and two parties filed competing applications seeking the WNCN license. The GAF Broadcasting renewal application, the petitions to deny and the competing applications are currently pending. In the opinion of management, the ultimate disposition of the FCC matters will not have a material adverse effect on the Company's financial position.

The Company and certain directors of the Predecessor Company have been defendants in a lawsuit pending in New York State Supreme Court, New York County, involving claims by the estate of Jesse Werner, the former Chairman and Chief Executive Officer of the Predecessor Company, that they wrongfully prevented him from exercising options to purchase 240,000 shares of common stock of the Predecessor Company and seeking to recover \$800,000 in compensatory damages and \$5,000,000 in punitive and exemplary damages (the "Stock Option Action"). The complaint was subsequently amended to increase the damages sought to \$13,897,000 and \$20,000,000, respectively, based primarily on the increase in the price of the Predecessor Company's common stock after the commencement of the action. The Court, however, ruled, in response to a motion by the Company, that the estate would be precluded from introducing evidence in support of the amended compensatory damage claim, and that damages, if any, were required to be measured by and limited to the difference between the market price of the stock at the time exercise of the option was denied to Werner and the exercise price of the options. In the alternative, the amended complaint seeks specific performance of Werner's options. In March 1984, the Company commenced a lawsuit in New York

State Supreme Court, New York County, against Werner and certain directors of the Predecessor Company seeking to recover compensatory damages in connection with Werner's compensation arrangements and costs incurred in waging the 1983 proxy contest plus \$50,000,000 in punitive damages (the "Waste Action").

Under the Company's By-Laws and under the Delaware General Corporation Law, the present and former directors and officers of the Company and the Predecessor Company are entitled to indemnification against certain liabilities, costs and expenses in any action, suit or proceeding as a result of their service in such capacity unless it is finally determined that they failed to act in good faith and in a manner which they reasonably believed to be in, or not opposed to, the best interest of the Company. The Company maintained company reimbursement and directors and officers liability insurance policies which were in effect during the period when the foregoing lawsuits were commenced and which should provide for reimbursement of amounts that might be paid in fulfillment of such indemnification obligations.

In the opinion of management, with respect to the Stock Option Action and Waste Action, the ultimate disposition of these actions will not have a material adverse effect on the Company's financial position.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the Registrant's security holders in 1991.

PART II

Item 5. Market for Registrant's Common Equity and Related Matters.

There is no trading market for the Registrant's common equity securities. All of the Registrant's Common Stock is held by the Company.

Item 6. Selected Historical Consolidated Financial Data

See page F-7.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

See Page F-3.

Item 8. Financial Statements and Supplementary Data

See Index on Page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant and the Company

The Registrant

The name, age, principal occupation or employment at the present time and during the last five years and the name and principal business of any corporation or other organization in which such occupation is or was conducted, of the directors of the Registrant and each of the executive officers of the Registrant are set forth below. Each person listed below is a citizen of the United States.

Name and Positions Held	Age	Present Principal Occupation or Employment and Five-Year Employment History
Stephen A. Block Director, Senior Vice President, General Counsel and Secretary	47	Mr. Block has been a director, Senior Vice President, General Counsel and Secretary of the Registrant since October 1990. He has held the same positions with the Company since October 1990. Mr. Block was Vice President and Deputy General Counsel of the Company from April 1989 to October 1990, prior to which he held the same position with the Predecessor Company from April 1988 to April 1989. From May 1987 to April 1988 he was Deputy General Counsel of the Predecessor Company. From 1974 to 1987 he served in various management and legal positions with Celanese Corporation, a diversified chemicals and fibers manufacturing company.
Samuel J. Heyman Director, Chairman and Chief Executive Officer	53	Mr. Heyman has been Chairman and Chief Executive Officer of the Registrant since October 1990 and has held the same positions with ISP since its formation. He was the sole director and President from August 1988 to October 1990. Mr. Heyman has been Chairman and Chief Executive Officer of the Company since April 1989 prior to which he held the same position with the Predecessor Company from December 1983 to April 1989. He is also the Chief Executive Officer, Manager and General Partner of a number of closely held real estate development companies and partnerships.

The Company

The name, age, principal occupation or employment at the present time during the last five years and the name and principal business of any corporation or other organization in which such occupation is or was conducted, of each director of the Company, other than Messrs. Block and Heyman who are also directors of the Registrant, are set forth below. Each person listed below is a citizen of the United States. Unless otherwise stated, all employments have continued for at least five years. All directors other than Mr. Heyman have served the Company as directors since April 1989. Mr. Heyman has served as director since September 1987. Mr. Heyman and Ronnie F. Heyman are husband and wife.

Name and Position Held	Age	Present Principal Occupation or Employment and Five-Year Employment History
Carl R. Eckardt Director and Executive Vice President, Corporate Development	61	Mr. Eckardt has been a director and Executive Vice President, Corporate Development of the Company since April 1989, prior to which he held the same position with the Predecessor Company from January 1987 to April 1989. Mr. Eckardt has held the same position with ISP since its formation. Mr. Eckardt was a Senior Vice President of the Predecessor Company from 1981 to 1987, and was President of the Predecessor Company's chemicals subsidiary and division from 1985 to 1987. Mr. Eckardt joined the Predecessor Company in 1974.

<u>Name and Position Held</u>	<u>Age</u>	<u>Present Principal Occupation or Employment and Five-Year Employment History</u>
Ronnie F. Heyman Director	43	Mrs. Heyman is a director of the Company and is a partner in the law firm of Heyman & Heyman which specializes in real estate law.
Irving Kagan Director	56	Mr. Kagan is a director of the Company and was Senior Vice President, General Counsel and Secretary of the Company from April 1989 to October 1990 prior to which he held the same position with the Predecessor Company from 1986 to April 1989. Before such time, he served as Senior Vice President, General Counsel and in various other management and legal positions from 1968 to October 1986 with The Hertz Corporation, an automobile and truck leasing company.
John M. Sergey Director and Executive Vice President and President, GAF Building Materials Corporation	49	Mr. Sergey has been a director and Executive Vice President of the Company and President, GAF Building Materials since April 1989. From 1978 to 1989 he served in various management positions with Avery International Corporation, a company engaged in the manufacture and conversion of pressure sensitive adhesive products, including Group Vice President of the Materials Group from 1987 to 1989 and Group Vice President of the Soabar Group from 1984 to 1987.

For information concerning litigation involving directors of the Company see "Item 3. Legal Proceedings."

Item 11. Executive Compensation**Cash Compensation**

The following table sets forth the cash compensation of the five most highly compensated executive officers of the Company and all executive officers as a group for services rendered during fiscal year 1991.

Name of Individual or number of persons in Group	Capacities in Which Served	Cash Compensation		
		Salary	Bonus(1)	Other(2)
Samuel J. Heyman	Chairman of the Board and Chief Executive Officer	\$ 407,083	\$ 225,000	\$ 9,019
Irwin Engelman (3)	Executive Vice President and Chief Financial Officer	282,500	141,250	21,725
Carl R. Eckardt	Executive Vice President, Corporate Development	224,583	165,000	4,859
John M. Sergey	Executive Vice President and President, GAF Building Materials Corporation	218,021	135,000	31,922(4)
Stephen A. Block	Senior Vice President, General Counsel and Secretary	191,666	115,000	3,979
All Executive Officers as a Group (7 individuals)		\$1,671,071	\$ 807,500	\$114,214

- (1) Includes Executive Incentive Compensation attributable to 1991 but paid in 1992 pursuant to the Incentive Program described below except that the amount shown for all Executive Officers as a Group. Payments made pursuant to the Incentive Program attributable to 1990 but paid in 1991 are as follows: Mr. Heyman—\$0; Mr. Engelman—\$103,125; Mr. Eckardt—\$80,000; Mr. Sergey—\$105,000; Mr. Block—\$70,000; and all executive officers as a group (7 individuals)—\$443,125. Mr. Heyman received a deferred bonus attributable to 1990 but paid in 1992 in the amount of \$163,900.
- (2) Includes the cost to the Company of special life insurance provided to the Company's officers, the Company's cash contributions to the GAF Capital Accumulation Plan and payments pursuant to a separation agreement with an officer whose employment with the Company terminated in November 1991.
- (3) Mr. Engelman resigned effective January 31, 1992.
- (4) Includes a relocation payment made to Mr. Sergey.

Compensation Pursuant to Plans

The Company maintains certain compensation plans, programs and arrangements for its executive officers and key employees of the Company and its subsidiaries. Set forth below is a brief description of each such plan under which compensation or other benefits were paid during 1991 or are proposed to be paid in the future.

Executive Incentive Compensation Program

Each of the Company and ISP has an Executive Incentive Compensation Program (collectively, the "Incentive Programs"). The Incentive Programs cover a total of approximately 300 officers, managers and other professional employees of the Company and its subsidiaries.

The Company's Incentive Plan covers key employees of GAF Building Materials and GAF Broadcasting. ISP's Incentive Plan covers key employees of ISP and its subsidiaries. The Board of Directors of each of the

Company and ISP, in its discretion, makes cash compensation awards to the key employees from an incentive compensation fund which is determined annually by each such Board of Directors based upon each company's and ISP's respective financial performance and other factors. The criteria then used to determine awards from each incentive compensation fund include individual performance of the employee measured against management-approved objectives as well as the profit performance of the employee's business unit or department as applicable.

ISP 1991 Incentive Plan for Key Employees. The ISP 1991 Incentive Plan for Key Employees (the "1991 Incentive Plan") authorizes the grant of options to purchase a maximum of 3,000,000 shares of ISP's Common Stock. Options may be either options intended to be "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code (the "Code"), or "non-qualified" stock options for purposes of the Code. The exercise price of options granted must be at least equal to the Fair Market Value (as defined in the 1991 Incentive Plan) of such shares on the date of grant. With respect to any incentive stock option granted to an Over-Ten-Percent Shareholder (as defined in the 1991 Incentive Plan) who owns stock possessing more than 10% of the voting rights of ISP's outstanding capital stock on the date of grant, the exercise price of the option must be at least equal to 110% of the Fair Market Value on the date of grant.

The term of each option is five years and 60 days (five years for certain incentive stock options granted to Over-Ten-Percent Shareholders). Options may not be exercised during the first year after the date of grant. Thereafter, except as noted below, each option becomes exercisable as to 20%, 40%, 60%, 80% and 100% of the shares subject thereto on each of the first through the fifth anniversaries of the date of grant, respectively, provided that with respect to options granted to an Over-Ten-Percent Shareholder, the option will become exercisable as to 100% of shares subject thereto four years and ten months from the date of grant.

ISP is seeking the approval of its stockholders at its 1992 Annual Meeting to amend the 1991 Incentive Plan to permit ISP's Compensation and Pension Committee, on a case by case basis, to allow vested options to vest for up to nine years from the date of grant and to permit ISP's Board of Directors, on a case by case basis, to vest unvested options in the event of a "Change in Control." A "Change in Control" of ISP is deemed to have occurred if the executive officers of ISP as of June 28, 1991, either directly or through one of their affiliates, ceases to have, directly or indirectly, at least 20% of the voting power of ISP. A subsidiary of the Company, which owns 80.6% of ISP's outstanding common stock, has committed to vote its ISP common stock in favor of the amendment, thereby ensuring its adoption.

The selection of eligible employees to receive options and awards under the 1991 Incentive Plan is made by ISP's Compensation and Pension Committee. Awards of options are based on the Compensation and Pension Committee's evaluation of an employee's past or potential contribution to ISP or its subsidiaries and no other consideration for the granting or extension of options is received by ISP. ISP's Compensation and Pension Committee determines the number of shares as to which options are to be granted to any employee, the date of the option grant, whether the option is intended to be an incentive stock option or a nonqualified stock option and other terms governing the options. There is no stated maximum or minimum number of options or shares which may be issued to any one eligible person or group of persons. However, the aggregate Fair Market Value of ISP Common Stock (determined at the date of the option grant) for which any employee may be granted incentive stock options in any calendar year may not exceed \$100,000, plus certain carryover allowances from the previous three years permitted under the Code.

Holders of stock options granted under the 1991 Incentive Plan have certain limited stock appreciation rights ("Limited Rights") which are in addition to the stock appreciation rights already included under the 1991 Incentive Plan. These Limited Rights apply only in the event of a tender or exchange offer for the Company's Common Stock by a bidder other than ISP, and entitle the option holder to surrender any then exercisable option or portion thereof and receive either cash or ISP's Common Stock, as determined by ISP's Compensation and Pension Committee, equal to the difference between the aggregate Fair Market Value of the shares subject to options on the date of surrender (as determined in accordance with the Limited Rights) and the aggregate option price.

Notwithstanding any other provision of the 1991 Incentive Plan, ISP's Compensation and Pension Committee may elect to pay any exercising option holder, in lieu of issuing shares of ISP's Common Stock, an amount equal to the difference between the aggregate Fair Market Value of the shares subject to option

sought to be exercised and the aggregate option price. Such amount shall be paid in cash or any combination of cash and ISP Common Stock at the election of ISP's Compensation and Pension Committee.

The 1991 Incentive Plan was adopted in June 1991. No options have been granted to persons named in the Compensation Table, whose equity in ISP is primarily represented by their ownership of the capital stock of the Company, which is privately held. Non-qualified stock options on 110,000 shares and 10,000 shares, each at an option price of \$12.25 per share, have, however, been granted to an executive officer of ISP and one other executive officer, respectively, who do not own any capital stock of the Company. Upon approval by the stockholders of ISP of the amendments to the 1991 Incentive Plan described above, an executive officer of ISP will be entitled to the benefit of both such amendments with respect to his options. In total, non-qualified stock options on 836,948 shares at an option price of \$12.25 per share and 61,560 shares at an option price of \$14.00 per share have been granted to all employees other than executive officers. The closing market price of ISP's Common Stock on March 13, 1992 was \$10.75 per share.

Equity Appreciation Plan

Equity Appreciation Plan. As of July 15, 1991, the Company terminated a compensation plan (the "Equity Appreciation Plan") which provided for the granting of "Appreciation Units" to certain employees. Under the terms of the Equity Appreciation Plan, Appreciation Units had no cash value when granted, but increased or decreased in value based on changes in the "book value" (as defined in the Equity Appreciation Plan) of the Company's common stock.

Upon the termination of the Equity Appreciation Plan, grantees received payment in respect of their vested Appreciation Units. On each anniversary date of the grant of a grantee's Appreciation Units, and provided that on such anniversary date the grantee is an active employee, the grantee will be paid in cash an amount equal to 20% of his or her remaining Appreciation Units until payment has been made for 100% of that grantee's Appreciation Units.

Mr. Engelman was the only executive officer of the Company to have been granted Appreciation Units. As of the date of his resignation, he was vested with respect to 20% of such Appreciation Units. Notwithstanding the payments made and to be made to other grantees as aforesaid, Mr. Engelman was not entitled to receive any payments in respect of his Appreciation Units until his employment with the Company terminated, at which time he became entitled to receive a payment of \$303,117 in respect of the 20% of such Appreciation Units which had vested. The Company is required to make such payment on or before January 31, 1993.

Capital Accumulation Plan. The GAF Capital Accumulation Plan ("GAFCAP") for salaried employees was adopted by the Company to encourage employees to accumulate funds for retirement.

GAFCAP is a profit sharing retirement plan which contains a salary reduction arrangement which complies with Section 401(k) of the Code. An employee becomes eligible to participate in GAFCAP commencing on the first day of the month after he or she has completed six months of service. Pursuant to GAFCAP, each participant may elect to reduce his or her compensation by up to 14% (thereby excluding from his or her income for federal income tax purposes the amount of such reduction) and to have the Company contribute such amount to GAFCAP on his or her behalf ("salary reduction contribution"). A participant also may elect to make non-deductible (for federal income tax purposes) voluntary contributions to GAFCAP in an amount not to exceed 10% of his or her compensation. The Company will contribute an additional amount equal to 3% of a participant's compensation and will match two-thirds of a participant's total contribution up to 4% of a participant's compensation, except that it will not match contributions that are not salary reduction contributions unless the participant has made the maximum salary reduction contribution. Distributions commence as soon as practicable after either the termination of employment or retirement, and a participant may elect to receive payment either (a) in monthly installments over a period equal to the participant's life expectancy or that of his or her spouse, if longer, or (b) in a lump sum. Executive officers who participate in the Non-Qualified Retirement Plan are not entitled to have employer contributions made to their GAFCAP accounts, if any. Mr. Engelman and Mr. Sergey were the only executive officers for whom employer contributions were made to GAFCAP in 1991.

Non-Qualified Retirement Plan

The Company has a non-qualified retirement plan for the benefit of certain key employees (the "Retirement Plan"). The benefit payable under the Retirement Plan, which vests in accordance with a 10-year schedule, consists of an annual payment commencing at age 65 equal to 25% of a covered employee's last full year's salary. The benefit continues for the longer of 15 years or the joint lifetimes of the employee and his or her spouse. If a covered employee dies while employed by the Company, a death benefit of 36% of the employee's annual income at the date of death is payable for a term of 15 years to the employee's beneficiary. Employees who participate in the Retirement Plan are not entitled to have employer contributions made to their accounts, if any, under GAFCAP.

No new participants are being admitted to the plan as of January 1989. The amount of annual vested benefits to which each executive officer was entitled at the end of 1991 was as follows: Mr. Heyman—\$58,200; Mr. Eckardt—\$28,200; Mr. Block—\$18,419; and all executive officers as a group (5 individuals)—\$181,820.

Severance Policy

The Company's basic severance policy for salaried employees provides for payments to employees based upon the age and length of service of the employee at the time of termination. This policy does not apply to employees who are dismissed for cause. The Company provides executive officers with the greater of a severance payment under the basic policy or six months' salary. Pursuant to the terms of the basic policy, the only executive officers who would be currently entitled to severance payments in excess of \$60,000 are Samuel J. Heyman and Carl R. Eckardt. Mr. Heyman and Mr. Eckardt would be entitled to severance payments of \$161,667 and \$107,708, respectively. Pursuant to the six months' salary practice the Company's executive officers would be entitled to receive the following severance payments: Mr. Heyman—\$242,500; Mr. Sergey—\$113,750; Mr. Eckardt—\$117,500; Mr. Block—\$105,000; and all executive officers as a group (5 individuals)—\$551,375.

Life Insurance

Salaried employees of the Company are eligible to enroll on a contributory basis in a benefits package providing generally for term life insurance equal to up to two times current annual base salary, an accidental death and dismemberment payment up to two times current annual base salary and monthly long-term disability benefits of up to 60% of current salary. In addition, salaried employees received life insurance coverage equal to their current annual base salary. All elected officers receive the aforementioned accidental death and dismemberment and long-term disability coverages on a non-contributory basis; they also receive group term life insurance coverage equal to four times current annual base salary. The cost to the Company of such insurance coverage for all executive officers is included in the Executive Compensation Table.

Personal Benefits

The Company also provides certain personal benefits (principally leased automobiles) to its executive officers which are difficult to quantify in terms of business or personal use. The Company has concluded, however, after reasonable inquiry, that the aggregate amounts attributable to such personal benefits do not exceed the lesser of \$25,000 or 10% of total cash compensation for each person named in the Cash Compensation Table above, or, as to all executive officers of the Company as a group, the lesser of \$25,000 times the number of persons in the group or 10% of the total cash compensation for the group.

Director Compensation

No directors of the registrant receive compensation for their services as directors.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

The following documents are filed as part of this report:

(a)(1) Financial Statements:

See Index on page F-1

(a)(2) Financial Statement Schedules:

See Index on page F-1

(a)(3) Exhibits:

- 3.1 — Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Form 10-K for the year ended December 31, 1989).
- 3.2 — By-laws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Form 10-K for the Year ended December 31, 1989).
- 4.1 — Indenture regarding G-I Holdings Inc. Subordinated Merger Debentures due 2005, dated March 29, 1989 (incorporated by reference to Exhibit (a)(4)(i) to the Registrant's Form 10-Q for the Quarter ended April 2, 1989).
- 10.1 — Non-Qualified Retirement Plan Letter Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-K for the Year ended December 31, 1989).
- 10.2 — Amendment and Restatement, dated as of February 28, 1992, among ISP Chemicals Inc., ISP Technologies Inc., ISP, G Industries Corp., the financial institutions party thereto, The Bank of New York, The Bank of Nova Scotia, Banque Paribas, and The Chase Manhattan Bank (National Association), as Co-Agents and Co-Arrangers, and The Chase Manhattan Bank (National Association), as Administrative Agent, to the Credit Agreement dated as of September 17, 1990 (without exhibits) (incorporated by reference to Exhibit 10.2 to the Senior Note Registration Statement of ISP (Registration No. 33-44862) (the "Senior Note Registration Statement")).
- 10.3 — Trust I Agreement (incorporated by reference to Exhibit (c)(2) to the Registrant's Form 8-K reporting an event on February 12, 1990).
- 10.4 — Trust II Agreement (incorporated by reference to Exhibit (c)(3) to the Registrant's Form 8-K reporting an event on February 12, 1990).
- 10.5 — Trust Agreement dated February 12, 1990 among Wilmington Trust Company, as trustee (the "Chemicals III Trustee"), the Chemicals I Trustee, the Chemicals II Trustee and ESSL-RP, Inc. ("ESSL") (incorporated by reference to Exhibit (c)(4) to the Registrant's Form 8-K reporting an event on February 12, 1990).
- 10.6 — Assignment of Partnership Interests and Amendment to the Amended and Restated Agreement of Limited Partnership of Rhone-Poulenc Specialty Chemicals, L.P. dated February 12, 1990 by and among the Chemicals I Trustee, the Chemicals II Trustee, ESSL, the Chemicals III Trustee, RPI and Holdings (incorporated by reference to Exhibit (c)(9) to the Registrant's Form 8-K reporting an event on February 12, 1990).
- 10.7 — Form of Affiliate Borrowing Agreement between the Company and G Industries (incorporated by reference to Exhibit 10.7 to the Common Stock Registration Statement of ISP (Registration No. 33-40337) (the "Common Stock Registration Statement").
- 10.8 — Management Agreement among the Company, GAF, G-I Holdings, G Industries, Building Materials and Broadcasting (incorporated by reference to Exhibit 10.9 to the Common Stock Registration Statement).
- 10.9 — Form of Tax Sharing Agreement among the Company, the Issuers, the Subsidiary Guarantors, GAF and G Industries (incorporated by reference to Exhibit 10.10 to the Common Stock Registration Statement).
- 10.10 — Non-Qualified Retirement Plan Letter Agreement (incorporated by reference to Exhibit 10.11 to the Common Stock Registration Statement).

- 10.11 — Equity Appreciation Plan of GAF (incorporated by reference to Exhibit 10.12 to the Common Stock Registration Statement).
- 10.12 — Agreement dated January 1, 1991, between the Company and GAF Building Materials (incorporated by reference to Exhibit 10.15 to the Common Stock Registration Statement).
- 10.13 — Form of 1991 Incentive Plan for Key Employees (incorporated by reference to Exhibit 10.15 to the Common Stock Registration Statement).
- 10.14 — Form of 1991 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.16 to the Common Stock Registration Statement).

22 — Subsidiaries of the Company.

(B) Reports on Form 8-K

No reports on Form 8-K were filed by the Registrant in 1991.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

G-I Holdings Inc.
(Registrant)

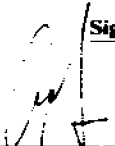

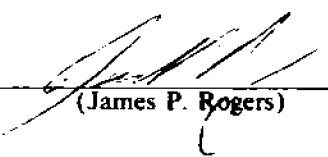
Date: March 27, 1992

By: _____



(Samuel J. Heyman)
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
 _____ (Samuel J. Heyman)	Chairman of the Board and Chief Executive Officer	March 27, 1992
 _____ (Stephen A. Block)	Director, Senior Vice President, General Counsel and Secretary	March 27, 1992
 _____ (James P. Rogers)	Vice President and Treasurer (Principal Financial Officer)	March 27, 1992
_____ (Jonathan H. Stern)	Vice President and Controller (Principal Accounting Officer)	March 27, 1992

SIGNATURES


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G-I Holdings Inc.
(Registrant)

Date: March 27, 1992

By: _____
(Samuel J. Heyman)
Chief Executive Officer

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G-I HOLDINGS INC.
FORM 10-K
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CONSOLIDATED FINANCIAL STATEMENTS
AND SCHEDULES

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To G-I Holdings Inc.:

We have audited the accompanying consolidated balance sheets of G-I Holdings Inc. (a Delaware corporation and a wholly-owned subsidiary of GAF Corporation) and subsidiaries as of December 31, 1991 and 1990, and the related consolidated statements of operations and retained earnings (deficit) and cash flows for the years ended December 31, 1991 and 1990 and the nine-month period ended December 31, 1989. These financial statements and the schedules referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, appearing on pages F-8 to F-27 of this Form 10-K, present fairly, in all material respects, the financial position of G-I Holdings Inc. and subsidiaries as of December 31, 1991 and 1990, and the results of their operations and their cash flows for the years ended December 31, 1991 and 1990 and the nine-month period ended December 31, 1989, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules appearing on pages S-1 to S-3 of this Form 10-K are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

Roseland, New Jersey
March 3, 1992

G-I HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Financial Condition

GAF Corporation (the "Predecessor Company") was acquired on March 29, 1989 in a management-led buyout (the "Acquisition") for a total price of \$1.423 billion. Newco Holdings, Inc. (which subsequently changed its name to GAF Corporation) (the "Company"), together with its wholly owned subsidiary, G-I Holdings Inc. (the "Registrant"), and its wholly owned subsidiary, G Industries Corp. ("G Industries"), were established to effect the Acquisition. As used under this heading, the term "Company" refers to the Company and its subsidiaries including the Registrant (but not the Predecessor Company and its subsidiaries) unless the context otherwise requires.

In July 1991, International Specialty Products Inc. ("ISP"), a newly formed indirect subsidiary of the Company, completed an initial public offering of 19,388,646 shares, or 19.4%, of its common stock, at an initial public offering price of \$15.50. ISP, through its subsidiaries, operates the businesses and owns substantially all of the operating assets formerly operated and owned by GAF Chemicals Corporation ("GCC"), its direct parent.

ISP was formed in 1991 to acquire, through a stock acquisition, substantially all of the operating businesses then conducted by GCC. GCC transferred (i) to newly formed subsidiaries, its assets and liabilities (other than those relating to certain investments and the capital stock of its existing subsidiaries), and (ii) to ISP, the capital stock of such newly formed subsidiaries, together with the capital stock of its existing operating subsidiaries.

The net proceeds of \$281.3 million from the initial public offering were used by the Company to reduce its \$600 million bank term loan. The remaining term loan amortization payments were reduced on a pro rata basis.

In March 1992, two domestic subsidiaries of ISP (the "Issuers") issued \$200 million principal amount of 9% Senior Notes (the "Notes") due 1999. The net proceeds from the issuance of the Notes were used by the Company to repay a portion of its bank term loan. As a result, the Company's scheduled repayments of long-term debt for the year 1992 have been reduced to \$27.3 million.

The Notes are general unsecured obligations of the Issuers. Upon issuance of the Notes, the Company's bank credit agreement ("Credit Agreement") was amended, with the Issuers assuming G Industries' obligations under the Credit Agreement (see Note 10 of Notes to Consolidated Financial Statements), including the term loan and the combined revolving credit/letter of credit facility (except for obligations related to letters of credit issued on behalf of subsidiaries of the Registrant other than ISP and its subsidiaries [the "Non-ISP Subsidiaries"], which are limited to \$40 million). In addition, all liens on assets of ISP securing the bank indebtedness were released, with the result that the remaining bank indebtedness and the Notes rank pari passu.

The separate \$40 million letter of credit facility for the benefit of the Non-ISP Subsidiaries expires on July 1, 1992, after which time any remaining open letters of credit must be cash collateralized by G Industries. The Non-ISP Subsidiaries expect to reduce their letter of credit requirements and/or establish a new letter of credit facility. To the extent they are unable to do so, G Industries expects to have sufficient cash available to collateralize the Non-ISP Subsidiaries' letters of credit.

In September 1991, the interest rate on the Registrant's Subordinated Merger Debentures Due 2005 was reset from a floating rate (16.25% as of December 31, 1990 and 15.4% prior to the date of reset) to a fixed rate of 12.875%.

As a result of the above transactions and also the transactions described in Notes 4 and 10 of Notes to Consolidated Financial Statements, the Company has significantly lowered its interest expense and reduced its principal payment obligations.

During the year 1991, the Company generated cash flow from operations of \$78.2 million compared with \$44.8 million for the year 1990. Non-cash charges to income for the year totaled \$85.5 million, consisting of depreciation, goodwill amortization and non-cash interest charges. Working capital usage primarily reflected a \$17.1 million decrease in accrued liabilities resulting mainly from lower accrued interest, product warranty claim payments and expenditures against plant shutdown accruals, and also reflected an \$8.6 million increase in inventories and a \$15 million decrease in accounts receivable, the latter mainly reflecting the receipt of an accrued dividend from GAF-Hüls Chemie GmbH ("GAF-Hüls"), the joint venture between ISP and Hüls AG. Other assets increased, reflecting undistributed equity in income from GAF-Hüls. Other liabilities decreased resulting primarily from expenditures against plant shutdown reserves.

In 1991, the Company invested \$45.7 million in plant and equipment and approximately \$19.9 million in research and development, compared with \$55.8 million and \$18.4 million, respectively, in 1990. Such investments were funded principally by internally generated cash flow. Net cash used for financing activities in 1991 was \$24.9 million, including repayment of long-term and short-term debt totaling \$303.6 million, largely offset by proceeds of \$281.3 million from the initial public offering.

Fluctuations in the value of foreign currencies cause U.S. dollar translated amounts to change in comparison with previous periods and, accordingly, the Company cannot quantify in any meaningful way the effect of such fluctuations upon future income. This is due to the large number of currencies involved, the constantly changing exposure in these currencies, the fact that all foreign currencies do not react in the same manner against the U.S. dollar, and the complexity of intercompany relationships (including ISP's practice of purchasing Deutsche mark denominated butanediol from GAF-Hüls, which serves to offset in part the adverse effect on net sales and income of a stronger U.S. dollar). The Company has a policy to manage these exposures to minimize the effects of fluctuations in foreign currencies. Part of that management includes entering into foreign exchange contracts from time to time in order to hedge a portion of both borrowings denominated in foreign currency and purchase commitments related to the operations of foreign affiliates. Gains and losses on contracts which meet the criteria for hedge accounting are deferred, and amortization is included in the measurement of the foreign currency transactions hedged. Open contracts which do not meet the criteria for hedge accounting are "marked-to-market" at the end of each accounting period, and gains or losses are recognized and included in other income. As of December 31, 1991, there were no open foreign exchange contracts. Forward contract agreements require the Company and the counterparty to exchange fixed amounts of U.S. dollars for fixed amounts of foreign currency on specified dates. The value of such contracts will vary with changes in the market exchange rates. During periods in which the dollar has been strong, the Company has sought to maintain its foreign operating income in dollar terms by offsetting changes in exchange rates with price increases. There can be no assurance that if undertaken in the future, any such efforts will be successful.

The Company, the Registrant, G Industries and GCC are essentially holding companies without independent businesses or operations and, as such, are dependent upon the cash flow of their subsidiaries in order to satisfy their obligations. See Note 17 of Notes to Consolidated Financial Statements for a description of such obligations.

Sales, operating income and identifiable assets by geographic area are set forth in Note 15 of Notes to Consolidated Financial Statements. For information with respect to historical income taxes, see Note 6 of Notes to Consolidated Financial Statements.

In December 1990, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." See Note 12 of Notes to Consolidated Financial Statements for a discussion of the potential impact of this new accounting standard on the Company's financial statements. In February 1992, the FASB issued Statement No. 109, "Accounting for Income Taxes", which established financial accounting and reporting standards for the effects of income taxes. The new standard is effective no later than for the year 1993. The Company does not anticipate that the implementation of these pronouncements will have a material adverse effect on its financial position or net income.

The Company does not believe that inflation has had a material effect on its results of operations during the past three years. However, there can be no assurance that the Company's business will not be affected by inflation in the future.

G-I HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Financial Condition

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In March 1992, two domestic subsidiaries of ISP (the "Issuers") issued \$200 million principal amount of 9% Senior Notes (the "Notes") due 1999. The net proceeds from the issuance of the Notes were used by the Company to repay a portion of its bank term loan. As a result, the Company's scheduled repayments of long-term debt for the year 1992 have been reduced to \$27.3 million.

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The separate \$40 million letter of credit facility for the benefit of the Non-ISP Subsidiaries expires on July 1, 1992, after which time any remaining open letters of credit must be cash collateralized by G Industries. The Non-ISP Subsidiaries expect to reduce their letter of credit requirements and/or establish a new letter of credit facility. To the extent they are unable to do so, G Industries expects to have sufficient cash available to collateralize the Non-ISP Subsidiaries' letters of credit.

In September 1991, the interest rate on the Registrant's Subordinated Merger Debentures Due 2005 was reset from a floating rate (16.25% as of December 31, 1990 and 15.4% prior to the date of reset) to a fixed rate of 12.875%.

As a result of the above transactions and also the transactions described in Notes 4 and 10 of Notes to Consolidated Financial Statements, the Company has significantly lowered its interest expense and reduced its principal payment obligations.

Pro Forma Results of Operations

The pro forma results as set forth in Note 5 of Notes to Consolidated Financial Statements reflect the Acquisition and the transfer of the Company's surfactants business (the "GAF Surfactants Business") as if such events had occurred as of January 1, 1989. The pro forma results have been adjusted: (i) to eliminate sales and expenses of the GAF Surfactants Business; (ii) to reflect appropriate reductions in goodwill amortization and interest expense related to the transfer of the GAF Surfactants Business; (iii) to reflect Partnership income arising from the transfer of the GAF Surfactants Business; and (iv) to reflect certain other costs and expenses related to the Acquisition as if the Acquisition had occurred on January 1, 1989. See Notes 1, 4 and 5 of Notes to Consolidated Financial Statements for further information.

1991 Compared With Pro Forma 1990

For the year 1991, the Company recorded net income of \$210.4 million compared with a pro forma 1990 net loss of \$3.1 million. The increase in net income includes a pretax gain of \$156.7 million, after applicable expenses, resulting from the initial public offering in July 1991 of 19,388,646 shares, or 19.4%, of the common stock of ISP. The balance of the increase in net income for the year was attributable to a \$10.6 million (6.5%) increase in operating income, a \$41.7 million reduction in interest expense, and a \$3.1 million increase in other income. Net sales in 1991 were \$925.6 million compared with \$921.6 million in 1990.

ISP recorded its ninth consecutive year of increased sales and operating income. ISP's net sales for the year were \$495.1 million (excluding sales to GAF Building Materials Corporation) ("GAF Building Materials"), an increase of \$13.7 million (3%) over 1990 sales of \$481.4 million. Operating income of ISP was \$140.5 million in 1991, an increase of \$7.4 million (6%) over 1990.

Specialty derivative chemicals and mineral products contributed to the increase in ISP's sales. Net sales of specialty derivative chemicals increased by \$14.6 million (4%) as a result of higher volumes, an improved product mix, and higher pricing, partially offset by the unfavorable impact of foreign exchange rates. Net sales of mineral products increased by \$2.8 million (3%), due to higher selling prices.

The growth in ISP's operating income resulted primarily from a \$7.4 million (7%) increase in operating income of specialty derivative chemicals, due to the improvement in product mix and higher pricing described above. These gains were partially offset by additional selling, general and administrative expenses and increased new product costs and an unfavorable foreign exchange impact. The operating income of mineral products increased by \$2.2 million (11%).

GAF Building Materials' operating income for 1991, which was the highest achieved in the past decade, was \$32.3 million, a 13% increase over 1990's \$28.5 million. Sales for the year were \$424.8 million compared with \$434.4 million in 1990. The higher operating income reflected improved margins offset in part by lower sales volumes.

Interest expense was \$138.5 million, a decrease of \$41.7 million (23%) from 1990. The decrease was attributable to the repayment of \$299 million of bank debt in 1991, mainly from the proceeds of the ISP initial public offering, and also to a general decline in prevailing interest rates and a reduction in the interest rate pricing provisions applicable to the Company's bank borrowings.

Other income includes Partnership income (see Note 4 of Notes to Consolidated Financial Statements) of \$43.8 million for the year 1991 and pro forma 1990. Other income also includes net investment income and other nonoperating and nonrecurring items of income and expense, which totaled \$11 million of expense in 1991 compared with \$14.1 million of expense in 1990. This reflects lower net investment income in 1991 and an \$8 million provision in 1991 for environmental remediation, which were more than offset by foreign exchange gains of \$.6 million in 1991 compared with losses of \$16.1 million in 1990.

Pro Forma 1990 Compared With Pro Forma 1989

For the year 1990, the Company recorded operating income of \$162 million, a \$24.2 million (17.6%) increase over pro forma 1989 operating income of \$137.8 million. ISP recorded its eighth consecutive year of increased operating income. GAF Building Materials posted a 14% increase in operating income and recorded its highest sales and income in the last decade.

On a pro forma basis, consolidated net sales grew by \$70.2 million (8%) in 1990 over 1989. The higher sales were primarily attributable to increased unit volumes in both ISP and GAF Building Materials.

ISP's operating income was \$133.1 million, an increase of \$17.2 million (15%) over 1989. Net sales increased to a record \$481.4 million, or 9% higher than 1989 pro forma net sales of \$440.6 million.

Specialty derivative chemicals, mineral products, filter products and advanced materials all contributed to the increase in net sales. Specialty derivative chemicals net sales increased \$31.9 million (9%) as a result of the favorable impact of foreign exchange rates of \$20 million; a combination of an improved product mix, new product introductions and higher pricing totaling \$7.8 million; and the inclusion of the full-year results of \$4.1 million of Sutton Laboratories, Inc. ("Sutton"), which the Company acquired in April 1989. Net sales of mineral products increased by \$6 million (8%), due to higher unit volumes.

The growth in ISP's operating income resulted primarily from a \$19 million (21%) increase in operating income of specialty derivative chemicals, due to the net impact of foreign exchange rates of \$14.1 million, an improvement in margins totaling \$8.3 million attributable to product mix and new product introductions, and the full-year results of Sutton of \$2.4 million. These gains were partially offset by additional selling, general and administrative expenses and increased new product and applicable costs totaling \$5.8 million. The operating income of mineral products was unchanged as gains from higher sales volumes were offset by higher manufacturing costs.

GAF Building Materials' operating income in 1990 increased by \$3.5 million (14%) to \$28.5 million, compared with \$25 million in 1989. Net sales in 1990 increased by \$29.2 million (7%) to \$434.4 million compared with \$405.2 million in 1989. The increase in operating income resulted primarily from higher residential and commercial unit volumes, lower product costs and a favorable product mix, offset in part by lower selling prices.

Other income on a pro forma basis was \$29.7 million in 1990 compared with \$49 million in 1989, including \$44 million of income from the Partnership in each year. Other income was lower in 1990 than 1989 primarily because of higher investment income earned in 1989 on higher cash balances, and also because of foreign exchange losses incurred in 1990 in connection with foreign exchange currency transactions. Such foreign exchange losses partially offset the higher operating income reported by ISP.

G-I HOLDINGS INC.
SELECTED FINANCIAL DATA
(Millions Except Per Share Amounts)

	Year Ended		Nine Months Ended December 31, 1989	Predecessor Company		
	December 31,			First Quarter Ended April 2, 1989	Year Ended December 31,	
	1991	1990			1988	1987
Sales						
Chemicals	\$ 495.1	\$ 481.4	\$ 447.8	\$ 152.3	\$ 545.0	\$ 431.4
Building Materials.....	424.8	434.4	319.3	85.9	411.4	400.5
Broadcasting	5.7	5.8	4.5	1.1	5.0	5.0
Net sales	<u>\$ 925.6</u>	<u>\$ 921.6</u>	<u>\$ 771.6</u>	<u>\$ 239.3</u>	<u>\$ 961.4</u>	<u>\$ 836.9</u>
Operating income						
Chemicals	\$ 140.5	\$ 133.1	\$ 100.1	\$ 37.1	\$ 120.3	\$ 103.7
Building Materials.....	32.3	28.5	21.6	3.4	22.6	20.6
Broadcasting	1.0	1.2	1.1	0.1	1.0	1.2
Other	(1.2)	(0.8)	(0.8)	0.1	0.6	0.1
Total	<u>\$ 172.6</u>	<u>\$ 162.0</u>	<u>\$ 122.0</u>	<u>\$ 40.7</u>	<u>\$ 144.5</u>	<u>\$ 125.6</u>
Income (loss) before extraordi- nary items	<u>\$ 210.4</u>	<u>\$ (10.4)</u>	<u>\$ (33.6)</u>	<u>\$ 32.0</u>	<u>\$ 90.8</u>	<u>\$ 100.1</u>
Per Common Share —						
Primary.....				\$ 1.15	\$ 3.18	\$ 2.93
Fully diluted				1.15	3.18	2.93
Dividends per common share025	.10	.10
	As of December 31,			As of April 2, 1989	Predecessor Company As of December 31,	
	1991	1990	1989		1988	1987
Current assets	\$ 341.6	\$ 336.6	\$ 371.3	\$ 450.4	\$ 926.9	\$ 580.4
Current liabilities	178.1	208.8	202.2	238.4	221.3	224.8
Working capital	163.5	127.8	169.1	212.0	705.6	355.6
Property, plant and equipment, net.....	502.5	490.6	470.2	483.7	327.7	276.6
Total assets	1,865.7	1,857.5	1,829.8	1,754.8	1,421.1	1,297.8
Total long-term debt.....	1,211.2	1,467.6	1,416.2	1,387.4	491.7	493.5
Shareholders' equity (deficit) ...	159.1	(55.8)	(55.2)	(22.6)	623.5	508.3

G-I HOLDINGS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

	Year Ended December 31,		Nine Months Ended December 31,
	1991	1990	1989
	(Thousands)		
Net sales	\$925,614	\$921,607	\$771,647
Costs and expenses			
Cost of products sold	546,991	562,157	493,453
Selling, general and administrative	191,510	183,010	141,372
Goodwill amortization	14,496	14,412	14,867
Total costs and expenses	752,997	759,579	649,692
Operating income	172,617	162,028	121,955
Interest expense	(138,482)	(182,559)	(158,294)
Gain on initial public offering of subsidiary's stock	156,728	—	—
Other income (expense)	32,761	24,644	(2,070)
Income (loss) before income taxes and extraordinary items	223,624	4,113	(38,409)
Income tax (provision) benefit	(9,835)	(14,555)	4,836
Minority interest in income of subsidiary	(4,495)	—	—
Income (loss) before extraordinary items	209,294	(10,442)	(33,573)
Extraordinary items, net of income tax benefits	1,089	—	(4,958)
Net income (loss)	210,383	(10,442)	(38,531)
Accumulated deficit, beginning of period	(49,278)	(38,756)	—
Dividends on G Industries Corp. preferred stock	—	(80)	(225)
Retained earnings (deficit), end of period	<u>\$161,105</u>	<u>\$ (49,278)</u>	<u>\$ (38,756)</u>

See Notes to Consolidated Financial Statements

G-I HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	1991	1990
	(Thousands)	
ASSETS		
Current Assets		
Cash and short-term investments	\$ 52,987	\$ 45,377
Accounts receivable, less reserve: 1991-\$3,825; 1990-\$3,800	126,653	141,623
Inventories	130,947	122,352
Other current assets	31,050	27,286
Total Current Assets	341,637	336,638
Investment in Limited Partnership	450,847	440,475
Property, Plant and Equipment, net	502,481	490,584
Excess of cost over net assets of businesses acquired, net	508,785	523,358
Other assets	61,972	66,431
Total Assets	<u>\$1,865,722</u>	<u>\$1,857,486</u>
LIABILITIES AND SHAREHOLDER'S EQUITY (DEFICIT)		
Current Liabilities		
Short-term debt	\$ 105	\$ 9,317
Current maturities of long-term debt	27,280	34,391
Accounts payable	62,724	68,203
Accrued liabilities	83,996	87,939
Income taxes	4,002	8,933
Total Current Liabilities	178,107	208,783
Long-term debt less current maturities	1,183,938	1,433,226
Deferred taxes	111,249	116,236
Other liabilities	142,154	155,025
Minority interest in subsidiary	91,176	—
Commitments and Contingencies		
Shareholder's Equity (Deficit)		
Capital stock and additional paid-in capital	50,000	50,000
Excess of purchase price over the adjusted historical cost of the Predecessor Company shares owned by the Company's shareholders	(72,605)	(72,605)
Retained earnings (deficit)	161,105	(49,278)
Cumulative translation adjustment and other	18,563	19,037
Unrealized gains (losses) on investments held by insurance subsidiary	2,035	(2,938)
Shareholder's Equity (Deficit)	159,098	(55,784)
Total Liabilities and Shareholder's Equity (Deficit)	<u>\$1,865,722</u>	<u>\$1,857,486</u>

See Notes to Consolidated Financial Statements

G-I HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		Nine Months Ended December 31,
	1991	1990	1989
	(Thousands)		
Cash and cash equivalents, beginning of period	\$ 45,377	\$ 83,409	\$ —
Cash Flows from Operating Activities:			
Net income (loss)	210,383	(10,442)	(38,531)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	31,595	30,310	21,042
Goodwill amortization	14,496	14,412	14,867
Non-cash interest charges	39,445	46,018	41,188
Gain on initial public offering of subsidiary's stock	(156,728)	—	—
(Increase) decrease in working capital	(24,921)	(15,750)	(25,297)
(Increase) decrease in other assets	(18,369)	1,419	3,088
Increase (decrease) in other liabilities	(18,399)	(16,590)	9,146
Other, net	709	(4,605)	—
Net cash provided by operating activities	78,211	44,772	25,503
Cash Flows from Investing Activities:			
Capital expenditures	(45,744)	(55,826)	(35,943)
Acquisition of Predecessor Company, net of cash acquired ..	—	—	(896,745)
Acquisition of Sutton Laboratories, Inc., net of cash acquired	—	—	(31,975)
Net cash used in investing activities	(45,744)	(55,826)	(964,663)
Cash Flows from Financing Activities:			
Proceeds from initial public offering of subsidiary's stock	281,272	—	—
Increase (decrease) in short-term debt	(9,212)	1,008	(266)
Proceeds from debt incurred to acquire Predecessor Company	—	—	1,044,571
Proceeds from debt incurred to acquire Sutton Laboratories, Inc.	—	—	22,000
Proceeds from non-recourse Partnership debt	—	450,000	—
Principal repayments of long-term debt related to transfer of the GAF Surfactants Business	—	(438,000)	—
Proceeds from debt financing	—	666,000	—
Principal repayments of long-term debt related to debt financing	—	(641,571)	—
Proceeds from issuance of long-term debt	—	18,715	25,598
Principal repayments of long-term debt	(294,397)	(41,582)	(39,851)
Financing fees related to debt financing	—	(23,015)	—
Financing fees and expenses related to transfer of the GAF Surfactants Business	(5,816)	(15,284)	—
Fees and expenses related to the Acquisition	(1,526)	(13,929)	(26,007)
Change in cumulative translation adjustment	(215)	11,610	7,427
Change in unrealized gains (losses) on investments held by insurance subsidiary	4,973	(1,705)	(1,233)
Other, net	64	775	(9,670)
Net cash provided by (used in) financing activities	(24,857)	(26,978)	1,022,569
Net change in cash and cash equivalents	7,610	(38,032)	83,409
Cash and cash equivalents, end of period	\$ 52,987	\$ 45,377	\$ 83,409

See Notes to Consolidated Financial Statements

G-I HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

	<u>Year Ended December 31,</u>		<u>Nine Months</u>
	<u>1991</u>	<u>1990</u>	<u>Ended</u>
			<u>December 31,</u>
			<u>1989</u>
	(Thousands)		
Supplemental Cash Flow Information			
(Increase) decrease in working capital items, net of effect of reclassification of assets of the GAF Surfactants Business:			
Accounts receivable	\$ 14,970	\$ (1,658)	\$ 7,085
Inventories	(8,595)	(5,792)	(11,376)
Other current assets	(3,764)	4,060	(3,282)
Accounts payable	(5,479)	(12,612)	(6,229)
Accrued liabilities	(17,122)	(367)	(11,402)
Income taxes	(4,931)	619	(93)
Net (increase) decrease in working capital items	<u>\$ (24,921)</u>	<u>\$ (15,750)</u>	<u>\$ (25,297)</u>
Cash paid during the period for:			
Interest (a)	\$101,492	\$144,942	\$ 109,828
Income taxes	\$ 13,671	\$ 13,208	\$ 7,660
Acquisition of Predecessor Company:			
Fair market value of assets acquired			\$1,923,308
Purchase price of Acquisition			(1,422,845)
Liabilities assumed			<u>\$ 500,463</u>
Acquisition of Sutton Laboratories, Inc., net of cash acquired:			
Fair market value of assets acquired			\$ 32,907
Purchase price of acquisition			(31,975)
Liabilities assumed			<u>\$ 932</u>
(a) Includes interest paid on non-recourse debt by the Limited Partner Trust of \$41.7 million for the year 1991 and \$37 million for the year 1990 (see Note 4 of Notes to Consolidated Financial Statements).			

See Notes to Consolidated Financial Statements

G-I HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Acquisition of Predecessor Company

GAF Corporation (the "Predecessor Company") was acquired on March 29, 1989 in a management-led buyout (the "Acquisition"). Newco Holdings, Inc. (which subsequently changed its name to GAF Corporation) (the "Company"), together with its wholly owned subsidiary, G-I Holdings Inc. (the "Registrant"), and its wholly owned subsidiary, G Industries Corp. ("G Industries"), were established to effect the Acquisition. As used in these notes, the term "Company" refers to the Company and its subsidiaries including the Registrant (but not the Predecessor Company and its subsidiaries) unless the context otherwise requires.

In the Acquisition, the outstanding shares of common stock of the Predecessor Company were converted into the right to receive (i) \$46.00 cash and (ii) \$7.00 principal amount (\$188.4 million in total) of the Registrant's Merger Debentures due 2005 (the "Merger Debentures") with a floating interest rate (16.25% as of December 31, 1990), which rate was reset to a fixed rate of 12.875% in the third quarter of 1991. Certain shares of the Predecessor Company beneficially owned by the management group plus cash were exchanged for \$50 million of common and preferred equity of the Company, \$2 million of preferred stock of G Industries, and \$48 million of the G Industries Increasing Rate Notes due 1994 (the "Increasing Rate Notes"). The Predecessor Company shares and cash were then exchanged for all of the common stock of the Registrant, and then for all of the G Industries common stock.

The Acquisition was financed by: (i) a secured bank credit facility consisting of a \$40 million letter of credit facility, and up to \$845 million of other credit (comprised of a \$720 million term loan and a \$125 million revolving line of credit), bearing interest at a floating rate and having a final maturity of October 11, 1990 (the "Old Bank Debt"); and (ii) the issuance of \$283 million principal amount (including the \$48 million mentioned above) of Increasing Rate Notes with an interest rate of 14.125% on issuance. The Old Bank Debt and the Increasing Rate Notes were repaid and the \$2 million of preferred stock of G Industries was redeemed in 1990. See Notes 4 and 10.

The sources and uses of funds in connection with the Acquisition, including repayments of existing debt, were as follows:

<u>Sources of Funds</u>	(Thousands)
Bank Borrowings	\$ 824,571
Senior Subordinated Increasing Rate Notes	235,000
Senior Subordinated Increasing Rate Notes issued to the management group in exchange for Predecessor Company shares	48,000
G Industries Preferred Stock issued	2,000
Merger Debentures issued	188,367
Purchase of common and preferred equity in the Company by the management group	50,000
Predecessor Company cash	624,793
Total Sources of Funds	<u>\$1,972,731</u>
<u>Uses of Funds</u>	
Consideration paid to holders of Predecessor Company common shares (27,936,285 shares outstanding X \$53.00 per share)	\$1,480,623
Consideration paid to holders of eligible options to purchase common shares of Predecessor Company	27,402
Repayment of existing debt	395,656
Fees and expenses	69,050
Total Uses of Funds	<u>\$1,972,731</u>

G-I HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 1. Acquisition of Predecessor Company—(Continued)

The total Acquisition purchase price of \$1.423 billion was determined as follows:

	(Thousands)
Consideration paid for Predecessor Company common shares (27,936,285 shares outstanding X \$53.00 per share)	\$1,480,623
Fees and expenses applicable to the Acquisition	14,827
Less: Predecessor Cost Adjustment (see below)	(72,605)
Total Purchase Price	<u>\$1,422,845</u>

The Acquisition was accounted for under the purchase method of accounting. Accordingly, the historical book values of assets and liabilities of the Predecessor Company were adjusted to their fair values, net of tax, as estimated at March 29, 1989 (the date of the Acquisition). As a result, an excess of cost over net assets of businesses acquired ("goodwill") of \$743.4 million was recorded, as shown below. See Note 4 for information in connection with a subsequent event which reduced goodwill.

	(Thousands)
Total Acquisition purchase price	<u>\$1,422,845</u>
Less: Estimated fair market value as of March 29, 1989 of assets and liabilities of businesses acquired:	
Current assets	611,639
Noncurrent assets	568,234
Current liabilities	(239,104)
Noncurrent liabilities	<u>(261,359)</u>
	679,410
Excess of cost over net assets of businesses acquired ("goodwill")	<u>\$ 743,435</u>

Since certain members of the management group beneficially owned shares of the Predecessor Company's common stock before the Acquisition and own shares of the Company after the Acquisition, purchase accounting does not apply to their shares of the Predecessor Company. Accordingly, for accounting purposes, Shareholder's Equity reflects the total shares of the Predecessor Company owned by the management group at their respective adjusted historical costs, reduced by the consideration paid by the Company for the Predecessor Company shares owned by the management group (including payments by the Predecessor Company to cancel outstanding options for stock of the Predecessor Company), resulting in a reduction in Shareholder's Equity of \$72.6 million, computed as follows:

	(Thousands)
Aggregate actual historical cost (to the management group) of Predecessor Company shares owned by the management group	\$ 23,621
Plus: Management group's proportionate share of Predecessor Company book value	<u>65,727</u>
Adjusted historical cost (to the management group) of Predecessor Company shares owned by the management group	89,348
Less: Consideration paid by the Company to the management group for Predecessor Company shares owned by the management group	<u>(161,953)</u>
Excess of purchase price paid by the Company to the management group for Predecessor Company shares over the adjusted historical cost (to the management group) of the Predecessor Company shares owned by the management group	<u>\$ (72,605)</u>

G-I HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The accounts of all significant Company subsidiaries are included in the consolidated financial statements. All significant intercompany transactions and balances have been eliminated. The 50% ownership of a foreign chemical manufacturing company is accounted for by the equity method (see Note 13).

Cash Equivalents

The Company considers its short-term investments and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Short-term Investments

Short-term investments are stated at the lower of cost or market, with the difference charged to income. The determination of cost in computing realized gains and losses on investments is based on the specific identification method. Investments held by the Company's insurance subsidiary are carried at the lower of cost or market, with the difference charged to "Unrealized gains (losses) on investments held by insurance subsidiary" within Shareholder's Equity (Deficit).

The Company invests in a variety of short-term investments. At December 31, 1991, the aggregate market value of such short-term investments was \$21.3 million, which is reflected in "Cash and short-term investments" on the Consolidated Balance Sheet.

Inventories

Inventories are stated at the lower of cost or market. The LIFO (last-in, first-out) method is utilized to determine cost for a substantial portion of the Company's domestic inventories. All other inventories are determined principally based on average cost.

Depreciation and Capitalized Interest

Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. Certain interest charges are capitalized as part of the cost of property, plant and equipment.

Foreign Exchange Contracts

The Company enters into a variety of foreign exchange instruments in order to hedge a portion of both its borrowings denominated in foreign currency and its purchase commitments related to the operations of foreign affiliates. Gains and losses on contracts which meet the criteria for hedge accounting are deferred, and amortization is included in the measurement of the foreign currency transactions hedged. Open contracts which do not meet the criteria for hedge accounting are "marked-to-market" at the end of each accounting period, and gains or losses are recognized and included in other income. As of December 31, 1991, there were no open foreign exchange contracts. Gains and losses on such instruments are deferred and amortization is included in the measurement of the foreign currency transactions hedged. Forward contract agreements entered into from time to time require the Company and the counterparty to exchange fixed amounts of U.S. dollars for fixed amounts of foreign currency on specified dates. The value of such contracts will vary with changes in the market exchange rates.

Translation of Foreign Currency Amounts

For non-U.S. subsidiaries which operate in a local currency environment, assets and liabilities are translated to U.S. dollars at year-end exchange rates. Translation adjustments are accumulated in a separate component of Shareholder's Equity (Deficit), "Cumulative translation adjustment." Income and expense items are translated at average rates of exchange during the year.

For non-U.S. subsidiaries which operate in a highly inflationary environment, inventories, fixed assets and investments are translated at historical rates as of the dates of acquisition, while other assets and liabilities are translated at year-end exchange rates. Inventories charged to cost of sales and depreciation expense are remeasured at historical rates, while all other income and expense items are translated at average rates of exchange during the year. Gains and losses resulting from translation are included in other income (expense).

G-I HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 2. Summary of Significant Accounting Policies—(Continued)

Debt Issuance Costs

All debt issuance costs (\$35 million) in connection with the Acquisition were fully written off as of September 1990. During the nine months ended December 31, 1989, amortization of approximately \$17.3 million was included in interest expense. An additional \$7.5 million was written off as an extraordinary charge (\$5 million after tax), principally related to the retirement of debt in connection with the transfer of the GAF Surfactants Business (see Note 4). Debt issuance costs of \$23 million in connection with the September 1990 debt financing (see Note 10) were being amortized over the life of the Credit Agreement; the unamortized balance of \$21.3 million was written off in 1991 in connection with the initial public offering discussed in Note 3.

Excess of Cost Over Net Assets of Businesses Acquired

Excess of cost over net assets of businesses acquired is being amortized on the straight-line method over a period of approximately 40 years.

Research and Development

Research and development expenses are charged to operations as incurred and amounted to \$19.9 million for the year 1991, \$18.4 million for the year 1990 and \$12.1 million for the nine months ended December 31, 1989.

Reclassifications

Certain amounts for 1990 have been reclassified to conform to the 1991 presentation.

Note 3. Initial Public Offering

In July 1991, the Company's chemicals subsidiary, International Specialty Products Inc. ("ISP") completed an initial public offering of 19,388,646 shares, or 19.4%, of its common stock, at a price of \$15.50 before underwriters' discount. The net proceeds of \$281.3 million from the initial public offering were utilized to reduce the Company's Bank Term Loan (see Note 10). The remaining term loan amortization payments were reduced on a pro rata basis. No provision for Federal income taxes was required in connection with the initial public offering.

Note 4. Investment in the Partnership

On February 12, 1990, pursuant to an Asset Sale Agreement, GAF Chemicals and one of its subsidiaries sold the assets (the "Surfactants Assets") of the Company's surfactants business (the "GAF Surfactants Business") to two newly formed grantor trusts (the "Purchaser Trusts"), of which GAF Chemicals and the subsidiary are the sole beneficiaries, and which are consolidated in the Company's financial statements. The Purchaser Trusts then contributed the Surfactants Assets to a partnership (the "Partnership") in exchange for limited partnership interests and, in turn, contributed such interests to a third trust which became a successor limited partner of the Partnership (the "Limited Partner Trust"). The Limited Partner Trust is entitled to priority distributions from the Partnership. The Partnership is affiliated with Rhone-Poulenc Inc. ("RPI"), a wholly owned subsidiary of Rhone-Poulenc S.A., a French Corporation. RPI also contributed businesses to the Partnership. The total consideration for the transferred Surfactants Assets was valued at approximately \$490 million, including the assumption and payment of certain liabilities relating to the Surfactants Assets. Using the \$450 million of loan proceeds, described below, received from the Limited Partner Trust, G Industries redeemed \$235 million of the Increasing Rate Notes and caused certain of its subsidiaries to prepay \$200 million of the then outstanding bank loans under the Credit Agreement (see Note 10).

The Limited Partner Trust borrowed the funds to pay the cash proceeds described above to the Company. The borrowing bears a fixed interest rate of 9.14%, matures in 1995, and is included in the Consolidated Balance Sheet (see Note 10). Interest expense for 1991 and 1990 includes \$41.7 million and \$37 million,

G-I HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 4. Investment in the Partnership—(Continued)

respectively, of interest related to this debt. Although non-recourse to the Company, repayment of the debt is secured by a pledge of the Company's interest in the Partnership. Partnership income of \$43.8 million and \$38.7 million for the years 1991 and 1990, respectively, is included in other income (expense).

As of December 31, 1989, for presentation in the Consolidated Balance Sheet, the assets and liabilities of the GAF Surfactants Business were reclassified to reflect the transaction discussed above. The amount of goodwill initially recorded in connection with the Acquisition was reduced by \$223.1 million as a result of the surfactants transaction. Deferred taxes of \$119 million related to this transaction were established.

Note 5. Pro Forma Financial Information

Presented below are Unaudited Pro Forma Condensed Consolidated Statements of Operations prepared as if the Acquisition and the transfer of the GAF Surfactants Business had occurred on January 1, 1989. The pro forma statements reflect adjustments for expenses attributable to the Acquisition, including interest expense arising from Acquisition debt, goodwill amortization, depreciation related to the writeup of plant and equipment to estimated fair value, and a reduction in income on investments reflecting utilization of the Predecessor Company's cash for the Acquisition. The pro forma statements also reflect elimination of fees and expenses related to the Acquisition which were expensed by the Predecessor Company. The pro forma results also reflect the elimination of sales and expenses of the GAF Surfactants Business for 1989, the reduction of goodwill amortization and interest expense which resulted from the surfactants transaction, and reflect Partnership income arising from the transfer of the GAF Surfactants Business.

Federal and state income taxes were not provided on a pro forma basis in 1990 and 1989 because the aforementioned interest deduction attributable to the Acquisition debt eliminated the need for a Federal or state tax provision. However, the foreign tax expense for 1990 and 1989 has remained unchanged from the historical financial statements.

On April 10, 1989, the Company acquired Sutton Laboratories, Inc. ("Sutton") for \$32 million. The acquisition was accounted for as a purchase. Accordingly, the results of Sutton have been included only from the date of acquisition in both the Consolidated Statement of Operations for the nine months ended December 31, 1989 and the pro forma statement of operations for the year 1989.

G-I HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 5. Pro Forma Financial Information—(Continued)

UNAUDITED PRO FORMA CONDENSED STATEMENTS OF OPERATIONS

	Historical Year Ended December 31, 1991	Pro Forma Year Ended December 31, 1990	1989
		(Millions)	
Net sales	\$ 925.6	\$ 921.6	\$ 851.4
Costs and expenses	738.5	745.2	699.6
Goodwill amortization	14.5	14.4	14.0
Operating income	172.6	162.0	137.8
Interest expense	(138.5)	(180.2)	(183.5)
Gain on initial public offering of subsidiary's stock	156.7	—	—
Other income, net	32.8	29.7	49.0
Income (loss) before income taxes and extraordinary items	223.6	11.5	3.3
Income taxes	(9.8)	(14.6)	(17.2)
Minority interest in income of subsidiary	(4.5)	—	—
Income (loss) before extraordinary items	<u>\$ 209.3</u>	<u>\$ (3.1)</u>	<u>\$ (13.9)</u>

Note 6. Income Taxes

Income tax (provision) benefit for the years 1991 and 1990 and the nine months ended December 31, 1989 consists of the following:

	1991	1990	1989
		(Thousands)	
Federal	\$ (1,089)	\$ —	\$ 17,628
Foreign	(7,440)	(14,455)	(13,031)
State and local	(1,306)	(100)	239
Income tax (provision) benefit	<u>\$ (9,835)</u>	<u>\$ (14,555)</u>	<u>\$ 4,836</u>

The differences between the income tax (provision) benefit computed by applying the statutory Federal income tax rate to pretax income (loss) for the years 1991 and 1990 and the nine months ended December 31, 1989, and the actual tax (provision) benefit are as follows:

	1991	1990	1989
		(Thousands)	
Statutory (provision) benefit	\$ (76,032)	\$ (1,399)	\$ 13,059
Impact of nontaxable gain on initial public offering of subsidiary's stock	65,985	—	—
Impact of foreign operations	5,699	(8,430)	(2,673)
Goodwill amortization	(4,940)	(4,912)	(4,937)
Additional depreciation expense resulting from the Acquisition	(1,707)	(1,707)	(1,279)
Percentage depletion	1,947	2,078	1,692
Other, net	(787)	(185)	(1,026)
Income tax (provision) benefit	<u>\$ (9,835)</u>	<u>\$ (14,555)</u>	<u>\$ 4,836</u>

G-I HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 6. Income Taxes—(Continued)

The change in the Deferred Tax liability primarily relates to the utilization of certain tax benefits arising from the Acquisition (see Note 1).

Extraordinary items for 1991 of \$1,089,000 represents carryover foreign tax credits from 1990 which could not be utilized previously for financial reporting purposes.

Effective March 29, 1989, the Company, the Registrant and G Industries entered into a Tax Sharing Agreement. In general, the agreement provides that each of the Registrant and G Industries will be required to pay to the Company its current tax liability computed on a separate return basis, and will be entitled to reimbursement from the Company for tax losses or tax credits which reduce the Company's consolidated tax liability.

In February 1992, the Financial Accounting Standards Board issued Statement No. 109, "Accounting for Income Taxes", which established financial accounting and reporting standards for the effects of income taxes. The new standard is effective no later than for the year 1993. At the date the Company adopts the new accounting rules, it may record the entire catch-up effect in that year or it may retroactively restate prior financial statements, including the financial statements presented herein. The Company does not anticipate that the implementation of this new standard will have a material adverse effect on its financial position or results of operations.

Note 7. Other Income (Expense)

Other income (expense) for the years 1991 and 1990 and the nine months ended December 31, 1989 consists of the following:

	<u>1991</u>	<u>1990</u>	<u>1989</u>
		(Thousands)	
Partnership income	\$43,848	\$38,739	\$ —
Net realized and unrealized gains (losses) on short-term investments	355	(2,357)	(2,843)
Interest and dividend income	6,031	10,428	13,251
Foreign exchange gains (losses)	569	(16,076)	(6,286)
Provision for environmental remediation	(8,026)	—	—
Retiree health and life insurance benefits	(3,608)	(4,334)	(2,581)
All other, net	(6,408)	(1,756)	(3,611)
Other income (expense)	<u>\$32,761</u>	<u>\$24,644</u>	<u>\$(2,070)</u>

Note 8. Inventories

Inventories at December 31 consist of the following:

	<u>1991</u>	<u>1990</u>
	(Thousands)	
Finished goods	\$ 78,811	\$ 70,251
Work in process	23,961	21,975
Raw materials and supplies	29,255	31,086
Total	132,027	123,312
Less LIFO reserve	(1,080)	(960)
Inventories	<u>\$130,947</u>	<u>\$122,352</u>

G-I HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 9. Property, Plant and Equipment

Property, Plant and Equipment at December 31 consist of the following:

	1991	1990
	(Thousands)	
Land and land improvements	\$ 59,865	\$ 59,150
Buildings and building equipment	81,716	78,356
Machinery and equipment	401,080	366,943
Construction in progress	36,923	32,286
Total	579,584	536,735
Less accumulated depreciation	(77,103)	(46,151)
Property, Plant and Equipment, net	<u>\$502,481</u>	<u>\$490,584</u>

Note 10. Short-term and Long-term Debt

Information regarding short-term debt is as follows:

	Year Ended December 31,		Nine Months Ended December 31,
	1991	1990	1989
	(Thousands)		
As of end of period:			
Balance outstanding	\$ 105	\$ 9,317	\$ 8,309
Weighted average interest rate	10.0%	9.3%	10.0%
For the period:			
Average month-end short-term debt outstanding	\$11,350	\$21,876	\$26,420
Maximum month-end short-term debt outstanding	\$18,769	\$32,274	\$30,434
Weighted average month-end interest rate	9.5%	9.1%	8.4%

See Note 18 for information in connection with the issuance of new debt and an amendment to the Credit Agreement discussed below, in March 1992.

At December 31, 1991, the Company's foreign subsidiaries had unused short-term lines of credit aggregating \$25.8 million. The short-term lines of credit are maintained with banks on terms which expire on various dates, but are generally renewable. Borrowings under short-term lines of credit generally bear interest at or near the prevailing market rates in the individual countries.

G-I HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 10. Short-term and Long-term Debt—(Continued)

Long-term debt at December 31 was as follows:

	1991	1990
	(Thousands)	
Bank Term Loan	\$ 300,995	\$ 600,000
Revolving Credit Facility	70,000	63,500
Industrial revenue bonds with various interest rates and maturity dates to 2012	23,176	23,626
Obligations on mortgaged properties	61,459	62,836
Merger Debentures due 2005	285,250	247,342
Non-recourse Partnership Debt (See Note 4)	450,000	450,000
10 ¾% Senior Subordinated Notes due 1994	13,684	13,684
11 ¾% Senior Subordinated Notes due 1995	6,745	6,745
Unamortized discount	(91)	(116)
Total	1,211,218	1,467,617
Less current maturities	(27,280)	(34,391)
Long-term debt less current maturities	<u>\$1,183,938</u>	<u>\$1,433,226</u>

The Bank Term Loan and Revolving Credit Facility are part of the bank credit agreement ("Credit Agreement") which G Industries entered into with a group of banks in September 1990, under which \$800 million in credit facilities were provided to G Industries. Borrowings under the Credit Agreement bear interest at a rate (8% on December 31, 1991) based on the banks' base rate (as defined) or a Eurodollar rate (as defined), at the option of G Industries. Substantially all of the assets of the Registrant were pledged as collateral under the Credit Agreement.

The Company is contingently liable under letters of credit issued under the Credit Agreement aggregating \$61.7 million, of which \$24.7 million secures amounts due under the Company's industrial revenue bond obligations. At December 31, 1991, after giving effect to the \$61.7 million of letters of credit outstanding and to outstanding borrowings, the amount remaining available under the Revolving Credit Facility was \$68.3 million. Reference is made to Note 18 in connection with a subsequent event in connection with the portion of the aforementioned letters of credit issued on behalf of GAF Building Materials.

The Merger Debentures bear a fixed interest rate of 12.875%. In 1999, the Registrant will be required to commence redeeming an aggregate of 60% of the outstanding principal amount of Merger Debentures in six equal annual installments.

Under the terms of the Merger Debentures, for the first five years following their initial issuance, interest may be paid either in cash or, at the option of the Registrant, in additional Merger Debentures valued at their face amount. The Registrant currently is required under the terms of certain indebtedness to issue additional Merger Debentures in lieu of cash interest payments. After March 15, 1994, interest must be payable in cash. The Merger Debentures are unsecured general obligations of the Registrant and are subordinated in right of payment to the prior payment of all senior indebtedness of the Registrant.

In connection with the Acquisition, the Predecessor Company conducted tender offers for its 11¾% Senior Subordinated Notes due 1995 and 10¾% Senior Subordinated Notes due 1994, and accepted for payment all validly tendered securities constituting approximately 95% and 91%, respectively, of each issue.

G-I HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 10. Short-term and Long-term Debt—(Continued)

The aggregate maturities of long-term debt as of December 31, 1991 for the next five years are as follows:

	(Thousands)
1992	\$ 27,280
1993	24,281
1994	44,122
1995	560,748
1996	7,558

In the above table, 1995 maturities include the \$450 million of non-recourse Partnership debt and also the \$70 million of borrowings under the Revolving Credit Facility as of December 31, 1991.

Note 11. Capital Stock

In the Acquisition, members of the management group acquired \$50 million of capital stock of the Company in exchange for shares of Predecessor Company common stock and cash. The Predecessor Company shares and cash were then exchanged for all of the common stock of the Registrant and then for all of the G Industries common stock.

As of December 31, 1990 and 1991, the Registrant's capital stock consists of 10 issued and outstanding common shares (par value, \$.01 per share; 1,000 shares authorized).

Note 12. Benefit Plans

The GAF Capital Accumulation Plan is a defined contribution plan for eligible salaried employees. The Company contributes 3% of participants' compensation, plus matching contributions up to an additional 4% of compensation for participants who make voluntary contributions. Each participant is fully vested at all times in the balance of his account. The aggregate contributions made by the Company to the plan and charged to operations were \$4,686,000 for the year 1991, \$4,583,000 for the year 1990, and \$3,812,000 for the nine months ended December 31, 1989.

The Retirement Plan for Hourly Employees is a noncontributory defined benefit plan. Benefits under this plan are based on stated amounts for each year of service. The Company's funding policy is consistent with the minimum funding requirements of ERISA, plus any additional amounts which the Company may determine to be appropriate. Pension expense charged to operations was \$1,539,000 for the year 1991, \$1,484,000 for the year 1990, and \$981,000 for the nine months ended December 31, 1989.

Net periodic pension cost included the following components:

	Year 1991	Year 1990	Nine Months Ended December 31, 1989
	(Thousands)		
Service cost	\$ 891	\$ 884	\$ 561
Interest cost	1,194	980	585
Actual return on plan assets	(649)	(530)	(256)
Net amortization and deferral	103	150	91
Net periodic pension cost	<u>\$1,539</u>	<u>\$1,484</u>	<u>\$ 981</u>

G-I HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 12. Benefit Plans—(Continued)

The following table sets forth the funded status of the Retirement Plan for Hourly Employees:

	December 31,	
	1991	1990
	(Thousands)	
Accumulated benefit obligation:		
Vested	\$13,080	\$10,319
Nonvested	2,620	2,721
Total accumulated benefit obligation	<u>\$15,700</u>	<u>\$13,040</u>
Projected benefit obligation	\$15,700	\$13,040
Fair value of plan assets, primarily listed stocks and U.S. Government securities	(9,204)	(6,719)
Projected benefit obligation in excess of plan assets	6,496	6,321
Unrecognized prior service cost	(1,736)	(1,657)
Unrecognized net loss	(259)	(307)
Unfunded accrued pension cost	<u>\$ 4,501</u>	<u>\$ 4,357</u>

The difference of \$2 million between the projected benefit obligation in excess of plan assets and the unfunded accrued pension cost as of December 31, 1991 has been recorded as an unfunded liability, offset by an intangible asset of \$1,736,000 and a reduction of shareholder's equity of \$259,000.

In determining the projected benefit obligation, the weighted average assumed discount rate was 8.75% for 1991, 9.25% for 1990, and 8.5% for 1989, while the expected long-term rate of return on assets, used in determining net periodic pension cost, was 9% for 1991 and 8% for 1990 and 1989.

The Company has a nonqualified retirement plan for the benefit of key employees. The benefit payable under the plan, which accrues in accordance with a ten-year schedule, consists of an annual payment commencing at age 65 equal to 25% of a covered employee's last full year's salary. The benefit continues for the longer of 15 years or the joint lifetimes of the employee and his or her spouse. If a covered employee dies while employed by the Company, a death benefit of 36% of the employee's annual compensation at the date of death is payable to the employee's beneficiary for a term of 15 years. Expense accrued for future obligations under such plan was \$453,000 for the year 1991, \$370,000 for the year 1990, and \$373,000 for the nine months ended December 31, 1989. Employees who participate in this plan are not entitled to have employer contributions made to their accounts under the GAF Capital Accumulation Plan.

The Company maintained an Equity Appreciation Plan, which was terminated upon completion of the initial public offering (see Note 3). As a result, the Company's gain from the initial public offering is net of a one-time charge of \$8.5 million in connection with the plan termination.

In addition to providing pension benefits, the Company presently provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees, including employees in foreign countries, may become eligible for those benefits if they reach normal retirement age while working for the Company. The cost to the Company for retiree health care and life insurance benefits was \$3.6 million for the year 1991, \$4.3 million for the year 1990 and \$2.6 million for the nine months ended December 31, 1989.

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The new standard requires that the expected cost of these benefits be recognized in the financial statements over an employee's active working career. The Company presently recognizes this expense as claims are incurred,

G-I HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 12. Benefit Plans—(Continued)

although a portion of such costs has previously been accrued. Adoption of the new standard is required no later than 1993.

Adoption of the new standard will create a previously unrecognized obligation covering prior years with respect to both existing retirees and active employees. This transition obligation may be recognized in future financial statements in one of two ways: (1) by immediate recognition through a cumulative catch-up adjustment in the statement of operations, based on the discounted present value of expected future benefits attributable to service rendered prior to adoption of the new standard, or (2) prospectively, by amortizing the obligation on a straight-line basis over the average remaining service period of active plan participants.

The Company's actuaries have made a preliminary review of the potential effects of the new accounting standard, using 1991 data. Their estimates are subject to change based on a number of factors, including changes in the assumed health care cost trend rate used in the calculations. Based on such review, the Company's postretirement benefit obligation at December 31, 1991, measured in accordance with the new standard, would be approximately \$82 million, of which the Company has existing reserves of approximately \$9.3 million. If the new standard had been adopted prospectively in 1991, the actuaries estimate that the pretax postretirement benefit expense provision for 1991 would have been approximately \$12 million. The 1991 pretax expense was approximately \$3.6 million. The new accounting method will have no effect on the Company's cash outlays for retiree benefits.

ISP's 1991 Incentive Plan for Key Employees (the "1991 Incentive Plan") authorizes the grant of options to purchase a maximum of 3,000,000 shares of ISP's common stock. Options may be either options intended to be "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code ("Code") or "nonqualified" stock options for purposes of the Code. The exercise price of options granted must be at least equal to the fair market value (as defined in the 1991 Incentive Plan) of such shares on the date of grant.

During 1991, 836,948 options were granted at an exercise price of \$12.25, all of which were outstanding at December 31, 1991. The term of each option is generally five years and 60 days. Options may not be exercised during the first year after the date of grant. Thereafter, each option becomes exercisable as to 20%, 40%, 60%, 80% and 100% of the shares subject thereto on each of the first through the fifth anniversaries of the date of grant.

Notwithstanding any other provision of the 1991 Incentive Plan, the Compensation and Pension Committee of ISP's Board of Directors may prohibit the exercise of any or all options to purchase shares of common stock if it pays the option holder an amount equal to the difference between the aggregate fair market value of the shares subject to such options and the aggregate option price. Such amount shall be paid in cash or any combination of cash and common stock at the election of the Compensation and Pension Committee.

G-I HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 13. Investment in Joint Venture

Financial data presented below pertain to GAF-Hüls Chemie GmbH ("GAF-Hüls"), a joint venture between ISP and Hüls Aktiengesellschaft, which operates a chemical manufacturing plant in Germany. The results of this joint venture are accounted for by the equity method. ISP's equity in the earnings of GAF-Hüls is reflected as a reduction of cost of products sold in the Company's statements of operations.

	Year Ended December 31,		Nine Months Ended December 31,
	1991	1990	1989
	(Thousands)		
Income Statement data:			
Revenues: From ISP	\$ 14,895	\$ 22,256	\$ 25,931
From others	89,326	99,020	67,155
Total revenues	104,221	121,276	93,086
Costs and expenses	78,611	79,440	60,518
Operating income	\$ 25,610	\$ 41,836	\$ 32,568
Net income of GAF-Hüls for the period	\$ 16,621	\$ 19,530	\$ 17,596
Equity of ISP in earnings of GAF-Hüls	7,894	9,684	8,698
Cash Flow data:			
Cash Flows From Operating Activities:			
Net income	\$ 16,621	\$ 19,530	\$ 17,596
Depreciation/amortization	4,389	4,977	3,335
Working capital changes	3,028	(4,500)	4,947
Other, net	(140)	2,076	3,192
Total	23,898	22,083	29,070
Cash Flows From Investing Activities:			
Capital expenditures	(576)	(3,385)	(858)
Cash Flows From Financing Activities:			
Dividends paid	(22,788)	(23,461)	(634)
Other, net	(361)	1,876	1,667
Total	(23,149)	(21,585)	1,033
Net change in cash and cash equivalents	\$ 173	\$ (2,887)	\$ 29,245
	December 31,		
	1991	1990	1989
Balance Sheet data:			
Current assets	\$ 53,611	\$ 57,420	\$ 60,612
Noncurrent assets	57,137	61,043	56,997
Total Assets	\$110,748	\$118,463	\$117,609
Current liabilities	\$ 9,879	\$ 33,080	\$ 40,649
Noncurrent liabilities	16,357	16,916	15,280
Total Liabilities	\$ 26,236	\$ 49,996	\$ 55,929
Net Assets	\$ 84,512	\$ 68,467	\$ 61,680
Equity of ISP in net assets of GAF-Hüls	41,588	34,003	30,690

G-I HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 14. Business Segment Information

	<u>Year Ended December 31,</u>		<u>Nine Months Ended December 31,</u>
	<u>1991</u>	<u>1990</u>	<u>1989</u>
	(Millions)		
Net sales			
Chemicals*	\$ 525.8	\$ 511.7	\$ 470.2
Less: Intersegment sales	(30.7)	(30.3)	(22.4)
Net Chemicals sales	495.1	481.4	447.8
Building Materials	424.8	434.4	319.3
Broadcasting	5.7	5.8	4.5
Net sales	<u>\$ 925.6</u>	<u>\$ 921.6</u>	<u>\$ 771.6</u>
Operating income			
Chemicals**:	\$ 140.5	\$ 133.1	\$ 100.1
Building Materials	32.3	28.5	21.6
Broadcasting	1.0	1.2	1.1
Other	(1.2)	(0.8)	(0.8)
Total operating income	<u>\$ 172.6</u>	<u>\$ 162.0</u>	<u>\$ 122.0</u>
Identifiable assets			
Chemicals**:	\$1,548.4	\$1,547.2	\$1,533.1
Building Materials	270.9	258.4	254.9
Broadcasting and other	46.4	51.9	41.8
Total assets	<u>\$1,865.7</u>	<u>\$1,857.5</u>	<u>\$1,829.8</u>
Capital expenditures			
Chemicals	\$ 34.4	\$ 35.6	\$ 25.1
Building Materials	11.3	20.2	10.8
Total	<u>\$ 45.7</u>	<u>\$ 55.8</u>	<u>\$ 35.9</u>
Depreciation			
Chemicals	\$ 19.7	\$ 18.8	\$ 12.8
Building Materials	11.8	11.4	8.1
Broadcasting	0.1	0.1	0.1
Total	<u>\$ 31.6</u>	<u>\$ 30.3</u>	<u>\$ 21.0</u>

*Chemicals sales exclude sales of GAF-Hüls.

**Chemicals income and identifiable assets include ISP's 50% equity in the income and investment in GAF-Hüls.

G-I HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 15. Geographic Information

	<u>Year Ended December 31,</u>		<u>Nine Months Ended December 31,</u>
	<u>1991</u>	<u>1990</u>	<u>1989</u>
	(Millions)		
Net sales:			
Domestic operations*	\$ 677.8	\$ 676.5	\$ 564.0
Europe**	173.9	174.2	124.2
Other foreign operations	73.9	70.9	83.4
Net sales	<u>\$ 925.6</u>	<u>\$ 921.6</u>	<u>\$ 771.6</u>
Operating income:			
Domestic operations	\$ 103.5	\$ 85.9	\$ 70.0
Europe***	55.2	58.3	29.7
Other foreign operations	13.9	17.8	22.3
Operating income	172.6	162.0	122.0
Interest expense and other, net	51.0	(157.9)	(160.4)
Income (loss) before income taxes and extraordinary items	<u>\$ 223.6</u>	<u>\$ 4.1</u>	<u>\$ (38.4)</u>
Identifiable assets:			
Domestic operations	\$1,721.4	\$1,717.4	\$1,691.7
Europe***	115.3	111.0	107.3
Other foreign operations	29.0	29.1	30.8
Total	<u>\$1,865.7</u>	<u>\$1,857.5</u>	<u>\$1,829.8</u>

*Net sales — domestic operations exclude sales by the Company's domestic subsidiaries to foreign affiliates of \$107.9 million for the year 1991, \$88.8 million in 1990, and \$70.5 million for the nine months ended December 31, 1989.

**Net sales — Europe exclude sales by the Company's European subsidiaries to domestic and other foreign affiliates of \$13.6 million for the year 1991, \$12.2 million in 1990, and \$12.9 million for the nine months ended December 31, 1989.

***Operating income — Europe, and Identifiable Assets — Europe include ISP's 50% ownership of GAF-Hüls.

Note 16. Supplementary Income Statement and Balance Sheet Information

	<u>Year Ended December 31,</u>		<u>Nine Months Ended December 31,</u>
	<u>1991</u>	<u>1990</u>	<u>1989</u>
	(Thousands)		
Maintenance and repairs	\$52,330	\$51,314	\$40,109
Rental expense — operating leases	11,056	7,629	6,688

Included in Accrued Liabilities on the Consolidated Balance Sheets as of December 31, 1991 and 1990 are accruals of \$13.6 million and \$12.5 million, respectively, for estimated future product warranty claims expense. In addition, Accrued Liabilities at December 31, 1990 includes \$10.8 million of loss reserves related to the Company's insurance subsidiary.

G-I HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 17. Commitments and Contingencies

The discussion as to legal matters involving the Company, and appearing in response to "Item 3. Legal Proceedings" is incorporated herein by reference.

The Company has operating leases for transportation, production and data processing equipment and for various buildings. Future minimum lease payments for properties which were held under long-term noncancelable leases as of December 31, 1991 were as follows

	(Thousands)
1992.....	\$ 5,554
1993.....	4,362
1994.....	1,881
1995.....	1,324
1996.....	967
Later years	<u>2,229</u>
	<u>\$16,317</u>

The Company and the Registrant are presently dependent upon the earnings and cash flow of their subsidiaries in order to satisfy obligations as of December 31, 1991 in the amount of \$14.3 million with respect to unpaid dividends on the Company's Series A cumulative redeemable preferred stock, \$285.3 million principal amount of the Registrant's Merger Debentures, and approximately \$137 million of various other liabilities of the Company and the Registrant including deferred taxes. Funds to satisfy the Company's dividend obligations are provided to the Company by the Registrant and its subsidiaries through dividends and loans, as to which there are restrictions under the Credit Agreement and the indenture for the Merger Debentures, including a prohibition on the funding by G Industries (a wholly owned subsidiary of the Registrant) of the Company's Series A preferred dividends prior to July 2, 1992, and from payments pursuant to Tax Sharing Agreements between the Company and the subsidiaries of the Registrant.

Based upon information presently available, management believes that the capital expenditures necessary in order to maintain the Company's compliance with environmental laws and regulations will not exceed \$5 million for each of the next five years.

Note 18. Subsequent Event

In March 1992, two domestic subsidiaries of ISP (the "Issuers") issued \$200 million of 9% Senior Notes (the "Notes"), due 1999. The Notes are guaranteed by ISP and all of its domestic subsidiaries (the "Subsidiary Guarantors"). The net proceeds from the issuance of the Notes were used by the Company to repay a portion of its Bank Term Loan. As a result of the foregoing, the Company's scheduled repayments of long-term debt for the year 1992 have been reduced to \$27.3 million, and the current portion of long-term debt as of December 31, 1991 has been adjusted to reflect such reduction.

The Notes are general, unsecured obligations of the Issuers. Upon issuance of the Notes, the Credit Agreement was amended, with the Issuers assuming G Industries' obligations under the Credit Agreement, including the term loan and the combined revolving credit/letter of credit facility, except for obligations related to letters of credit issued on behalf of subsidiaries of the Registrant other than ISP and its subsidiaries (the "Non-ISP Subsidiaries"), which are limited to \$40 million. In addition, all liens on assets of ISP securing the bank indebtedness were released, with the result that the remaining bank indebtedness and the Notes rank pari passu.

The separate \$40 million letter of credit facility for the benefit of the Non-ISP Subsidiaries expires on July 1, 1992, after which time any remaining open letters of credit must be cash collateralized by G Industries. The Non-ISP Subsidiaries expect to reduce their letter of credit requirements and/or establish a new letter of credit facility. To the extent they are unable to do so, G Industries expects to have sufficient cash available to collateralize the Non-ISP Subsidiaries' letters of credit.

G-I HOLDINGS INC.
SUPPLEMENTARY DATA (UNAUDITED)

Quarterly Financial Data (Unaudited)

	1991 By Quarter				1990 By Quarter			
	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
	(Millions)							
Net sales	\$209.2	\$253.7	\$247.5	\$215.2	\$220.9	\$235.5	\$254.1	\$211.1
Cost of products sold	<u>123.4</u>	<u>147.1</u>	<u>143.6</u>	<u>132.9</u>	<u>137.6</u>	<u>139.4</u>	<u>160.0</u>	<u>125.2</u>
Gross profit	<u>\$ 85.8</u>	<u>\$106.6</u>	<u>\$103.9</u>	<u>\$ 82.3</u>	<u>\$ 83.3</u>	<u>\$ 96.1</u>	<u>\$ 94.1</u>	<u>\$ 85.9</u>
Operating income	<u>\$ 39.2</u>	<u>\$ 53.9</u>	<u>\$ 48.6</u>	<u>\$ 30.9</u>	<u>\$ 37.8</u>	<u>\$ 45.3</u>	<u>\$ 42.7</u>	<u>\$ 36.2</u>
Income (loss) before income taxes and ex- traordinary item	\$ 25.5	\$ 31.1	\$166.8	\$ 0.2	\$ (6.3)	\$ 9.1	\$ 1.2	\$ 0.1
Income tax (provision) benefit	(6.2)	(9.3)	10.1	(4.4)	(5.9)	(3.6)	(1.1)	(3.9)
Minority interest in income of subsidiary	—	—	(2.5)	(2.0)	—	—	—	—
Income (loss) before extraordinary item	19.3	21.8	174.4	(6.2)	(12.2)	5.5	0.1	(3.8)
Extraordinary item	—	—	—	1.1	—	—	—	—
Net income (loss)	<u>\$ 19.3</u>	<u>\$ 21.8</u>	<u>\$174.4</u>	<u>\$ (5.1)</u>	<u>\$ (12.2)</u>	<u>\$ 5.5</u>	<u>\$ 0.1</u>	<u>\$ (3.8)</u>

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To GAF Corporation:

We have audited the accompanying consolidated statements of income, cash flows and shareholders' equity of GAF Corporation (a Delaware corporation) and subsidiaries for the three-month period ended April 2, 1989. These financial statements and the schedules referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, appearing on pages F-30 to F-41 of this Form 10-K, present fairly, in all material respects, the results of operations and cash flows of GAF Corporation and subsidiaries for the three-month period ended April 2, 1989, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules appearing on pages S-4 to S-6 of this Form 10-K are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.



ARTHUR ANDERSEN & CO.

Roseland, New Jersey
March 3, 1992

GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)
CONSOLIDATED STATEMENT OF INCOME
(Thousands Except Per Share Amounts)

	First Quarter Ended April 2, 1989
Net sales	<u>\$239,289</u>
Costs and expenses:	
Cost of products sold	155,580
Selling, general and administrative	<u>42,975</u>
Total costs and expenses	<u>198,555</u>
Operating income	40,734
Income on investments	56,822
Interest expense	(13,622)
Other expense, net	<u>(33,877)</u>
Income before income taxes and extraordinary item	50,057
Income taxes	<u>18,074</u>
Income before extraordinary item	31,983
Extraordinary item	<u>(6,553)</u>
Net income	<u>\$ 25,430</u>
Earnings per common share	
Before extraordinary item	\$ 1.15
Extraordinary item	<u>(.24)</u>
Net income	<u>\$.91</u>

See Notes to Consolidated Financial Statements

GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Thousands)

	First Quarter Ended April 2, 1989
Common stock, \$1 par value per share:	
Balance, January 1 and end of period	<u>\$ 36,008</u>
Additional paid-in capital:	
Balance, January 1	45,554
Proceeds in excess of (less than) cost of treasury shares issued under stock plans	<u>(2,464)</u>
Balance, end of period	<u>43,090</u>
Retained earnings:	
Balance, January 1	851,010
Net income	25,430
Common stock cash dividends [per share: \$.025]	<u>(697)</u>
Balance, end of period	<u>875,743</u>
Accumulated translation adjustment:	
Balance, January 1	12,067
Translation adjustment for the period	<u>(2,928)</u>
Balance, end of period	<u>9,139</u>
Treasury stock, at cost:	
Common stock:	
Balance, January 1	(321,162)
Issued under various stock option and stock purchase plans: 107,070 shares	<u>4,335</u>
Balance, April 2, 1989 — 8,071,892 shares	<u>(316,827)</u>
Shareholders' Equity	<u>\$647,153</u>

GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)
CONSOLIDATED STATEMENT OF CASH FLOWS
(Thousands)

	First Quarter Ended April 2, 1989
Cash and cash equivalents, January 1	<u>\$616,215</u>
Cash Flows from Operating Activities:	
Net income	25,430
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	5,551
Goodwill amortization	333
(Increase) decrease in working capital*	28,723
(Increase) decrease in other assets	(37,083)
Increase (decrease) in other liabilities	<u>8,477</u>
Net cash provided by operating activities	<u>31,431</u>
Cash Flows from Investing Activities:	
Capital expenditures	<u>(6,903)</u>
Cash Flows from Financing Activities:	
Increase (decrease) in short-term debt	2,285
Principal repayments of long-term debt	(389,763)
Investment in marketable securities, net	49,877
Change in accumulated translation adjustment	(2,928)
Cash dividends	(697)
Other, net	<u>6,710</u>
Net cash used in financing activities	<u>(334,516)</u>
Net change in cash and cash equivalents	<u>(309,988)</u>
Cash and cash equivalents, end of period	<u><u>\$306,227</u></u>
* (Increase) decrease in working capital items:	
Accounts receivable	\$ 22,995
Inventories	2,217
Other current assets	(11,709)
Accounts payable	10,276
Accrued liabilities	5,727
Income taxes	<u>(783)</u>
Net (increase) decrease in working capital items	<u><u>\$ 28,723</u></u>
Supplemental Cash Flow Information:	
Cash paid during the period for:	
Interest	\$ 17,199
Income Taxes	\$ 922

See Notes to Consolidated Financial Statements

**GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Acquisition by GAF Corporation

GAF Corporation (the "Predecessor Company") was acquired on March 29, 1989 in a management-led buyout (the "Acquisition") by Newco Holdings, Inc. (which subsequently changed its name to GAF Corporation) (the "Company"). The accompanying financial statements represent the historical operating results of the Predecessor Company and do not include any adjustments resulting from the Acquisition.

Principles of Consolidation

The accounts of all significant subsidiaries of the Predecessor Company were included in the consolidated financial statements. All significant intercompany transactions and balances were eliminated. The 50% ownership of a foreign chemical manufacturing company was accounted for by the equity method.

Cash Equivalents

The Predecessor Company considered its short-term investments and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Short-term Investments and Marketable Securities

Short-term investments and marketable securities were stated at the lower of cost or market. The determination of cost in computing realized gains and losses on investments was based on the specific identification method.

Inventories

Inventories were stated at the lower of cost or market. The LIFO (last-in, first-out) method was utilized to determine cost for a substantial portion of domestic inventories. All other inventories were determined principally based on average cost.

Depreciation and Capitalized Interest

Depreciation was computed principally on the straight-line method based on the estimated economic lives of the assets. Certain interest charges were capitalized as part of the cost of property, plant and equipment.

Research and Development

Research and development expenses were charged to operations as incurred and amounted to \$4 million in the first quarter of 1989.

Earnings Per Common Share

Primary and fully diluted earnings per common share were based on the weighted average number of common and common equivalent shares outstanding during each year. Weighted average shares for computing primary and fully diluted earnings per share were 27,872,000 for the first quarter of 1989.

**GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 2. Income on Investments

Income on investments consisted of the following:

	First Quarter Ended April 2, 1989 (Millions)
Net realized gains, net of unrealized losses on short-term investments	\$42.5
Dividends, interest income and other	14.3
Income on investments	<u>\$56.8</u>

Note 3. Income Taxes

Income taxes consisted of the following:

	First Quarter Ended April 2, 1989 (Thousands)
Federal	\$13,194
Foreign	4,408
State and local	472
Income taxes	<u>\$18,074</u>

The difference between the income tax provision computed by applying the statutory Federal income tax rate to pretax income and the actual tax provision was as follows:

	First Quarter Ended April 2, 1989 (Thousands)
Statutory Provision	\$17,019
Adjustments:	
Dividend received deductions	(141)
Impact of foreign operations	744
State and local taxes	311
Other	141
Income taxes	<u>\$18,074</u>

As of April 2, 1989, provision had not been made for United States income taxes on approximately \$15.6 million of unremitted earnings of consolidated foreign subsidiaries and the Predecessor Company's 50% owned joint venture, because any United States taxes payable on foreign earnings which may be remitted in the future were expected to be substantially reduced by foreign tax credits.

Extraordinary credits for the first quarter of 1989 included income tax benefits of \$56,000 related to the Predecessor Company's partial disposition of its investment in Union Carbide Corporation.

**GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 4. Benefit Plans

The Predecessor Company's GAF Capital Accumulation Plan was a defined contribution plan for eligible salaried employees. Predecessor Company contributions consisted of a basic contribution of 3% of the compensation of participants for the plan year, plus matching contributions up to an additional 4% for those participants who elected to make voluntary contributions to the plan. Each participant was fully vested at all times in the balance of his account. The aggregate contributions made by the Predecessor Company to the plan and charged to operations in the first quarter of 1989 were \$971,000.

The retirement plans for hourly employees and Texas City facility employees were noncontributory defined benefit plans. Benefits for these plans were based on stated amounts for years of service. The Predecessor Company's funding policy was consistent with the minimum funding requirements of ERISA, plus any additional amounts which the Predecessor Company determined to be appropriate. Pension expense charged to operations was \$327,000 in the first quarter of 1989.

Net periodic pension cost included the following components:

	First Quarter Ended April 2, 1989 (Thousands)
Service cost	\$ 187
Interest cost	195
Actual return on plan assets	(85)
Net amortization and deferral	30
Net periodic pension cost	<u>\$ 327</u>

The following table sets forth the funded status of the retirement plans for hourly employees and Texas City facility employees at April 2, 1989:

	April 2, 1989 (Thousands)
Accumulated benefit obligation:	
Vested	\$7,020
Nonvested	1,578
Total accumulated benefit obligation	<u>\$8,598</u>
Projected benefit obligation	\$8,598
Fair value of plan assets, primarily listed stocks and U.S. Government securities ..	<u>(4,111)</u>
Projected benefit obligation in excess of plan assets	4,487
Unrecognized net transition obligation being recognized over 15 years	(701)
Unrecognized prior service cost	(859)
Unrecognized net gain	203
Unfunded accrued pension cost	<u>\$3,130</u>

In determining the projected benefit obligation, the weighted average assumed discount rate was 9%, while the expected long-term rate of return on assets, used in determining net periodic pension cost, was 8%.

The Predecessor Company had a nonqualified retirement plan for the benefit of key employees. The benefit payable under the plan, which accrued in accordance with a ten-year schedule, consisted of an annual payment commencing at age 65 equal to 25% of a covered employee's last full year's salary. If a covered employee died while employed by the Predecessor Company, a death benefit of 36% of the employee's annual

**GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 4. Benefit Plans—(Continued)

income at the date of death was payable to the employee's beneficiary for a term of 15 years. Employees who participated in this plan were not entitled to have employer contributions made to their accounts under the GAF Capital Accumulation Plan. The expense charged to operations in the first quarter of 1989 for such future obligations amounted to \$87,000.

In addition to providing pension benefits, the Predecessor Company and its subsidiaries provided certain health care and life insurance benefits for retired employees. Substantially all of the Predecessor Company's employees, including employees in foreign countries, could become eligible for those benefits if they reached normal retirement age while working for the Predecessor Company. The cost of retiree health care and life insurance benefits (\$1.0 million in the first quarter of 1989) was recognized as expense as claims were incurred.

Note 5. Short-term and Long-term Debt

Information regarding short-term debt is as follows:

	First Quarter 1989 (Thousands)
As of end of period:	
Balance outstanding	\$9,446
Weighted average interest rate	8.6%
For the period:	
Average month-end short-term debt outstanding	\$8,374
Maximum month-end short-term debt outstanding	\$9,446
Weighted average month-end interest rate	9.1%

In connection with the Acquisition, the Predecessor Company conducted tender offers and consent solicitations to amend the indentures for its 11 $\frac{3}{4}$ % Senior Subordinated Notes due 1995, 10 $\frac{3}{4}$ % Senior Subordinated Notes due 1994 and 10 $\frac{3}{4}$ % Senior Subordinated Debentures due 2001. The tender offers expired on March 28, 1989, and the Predecessor Company accepted for payment all validly tendered securities constituting approximately 95%, 91% and 100%, respectively, of each issue. As a result, the Predecessor Company incurred a first quarter 1989 extraordinary charge from extinguishment of debt in the amount of \$6.6 million, net of income tax benefit of \$4.4 million. Amounts remaining outstanding are \$6.7 million of the 11 $\frac{3}{4}$ % Notes and \$13.7 million of the 10 $\frac{3}{4}$ % Notes.

Note 6. Stock Option Plans

The Predecessor Company's 1984 Stock Option Plan provided for the granting of incentive and nonqualified stock options to key employees of the Predecessor Company and its subsidiaries to purchase common stock of the Predecessor Company at not less than 100% of the fair market value at the date of grant. Under the terms of the plan, options for 1,600,000 shares of common stock could be granted from time to time until April 30, 1989. The term of each option was five years and sixty days. Options could not be exercised during the first year after the date of grant, but thereafter, options became exercisable as to 20% of the shares subject thereto on each of the first through the fifth anniversaries of the date of grant.

The Predecessor Company's 1975 nonqualified stock option plan provided for the granting of 1,600,000 options to key employees to purchase common stock of the Predecessor Company at not less than 100% of the fair market value at the date of grant. Options granted through April 30, 1984 were exercisable one year after grant and expired after 10 years. Options granted after April 30, 1984 were subject to the same terms and

**GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 6. Stock Option Plans—(Continued)

conditions as options issued under the 1984 Stock Option Plan. The 1975 plan terminated in 1985, and no additional options were granted after that date.

In connection with the Acquisition, all holders of stock options with an exercise price of less than \$53 per share received consideration consisting of cash and/or Merger Debentures equal to the difference between \$53 per share and the applicable option exercise price. The total consideration paid to option holders was approximately \$27.4 million. Such amount was recorded as a charge to earnings in the first quarter of 1989.

The following is a summary of certain information pertaining to the 1975 and 1984 stock option plans:

	First Quarter 1989 (Number of Shares)
Outstanding January 1	1,334,955
Granted	—
Exercised	(107,070)
Terminated	(22,170)
Vesting and cashout in connection with the Acquisition	(1,205,715)
Outstanding end of period	<u>— 0 —</u>
At end of period:	
Exercisable	—
Available for grant	—
	(Option Price Range Per Share)
Outstanding	—
Exercised	\$ 5.94—
.....	\$ 42.88

**GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 7. Investment in Joint Venture

Financial data presented below pertains to GAF-Hüls Chemie GmbH, a joint venture between the Predecessor Company and Hüls Aktiengesellschaft, which operates a chemical manufacturing plant in West Germany. The results of this joint venture were accounted for by the equity method. The Predecessor Company's equity in the earnings of GAF-Hüls is reflected as a reduction of cost of products sold in the Predecessor Company's statement of income.

	First Quarter Ended April 2, 1989 (Thousands)
Income Statement data:	
Revenues	\$ 30,127
Costs and expenses	<u>18,586</u>
Operating income	<u>\$ 11,541</u>
Income for the period	\$ 6,232
Equity of the Predecessor Company in earnings of GAF-Hüls	3,116
	<u>April 2, 1989</u>
Balance Sheet data:	
Current assets	\$ 27,734
Noncurrent assets	<u>54,599</u>
Total Assets	<u>\$ 82,333</u>
Current liabilities	\$ 9,771
Noncurrent liabilities	<u>13,755</u>
Total Liabilities	<u>\$ 23,526</u>
Net assets	\$ 58,807
Equity of the Predecessor Company in net assets of GAF-Hüls	29,352

**GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 8. Business Segment Information

	First Quarter Ended April 2, 1989 <u>(Millions)</u>
Net sales	
Chemicals*	\$ 158.9
Less: Intersegment Sales	<u>(6.6)</u>
Net Chemicals Sales	152.3
Building Materials	85.9
Broadcasting	<u>1.1</u>
Net sales	<u>\$ 239.3</u>
Operating income	
Chemicals**	\$ 37.1
Building Materials	3.4
Broadcasting	0.1
Other	<u>0.1</u>
Total operating income	<u>\$ 40.7</u>
Identifiable assets	
Chemicals**	\$ 458.5
Building Materials	261.2
Corporate and other	<u>365.9</u>
Total assets	<u>\$1,085.6</u>
Capital expenditures	
Chemicals	\$ 3.9
Building Materials	2.8
Corporate and other	<u>0.2</u>
Total	<u>\$ 6.9</u>
Depreciation	
Chemicals	\$ 2.7
Building Materials	2.6
Corporate and other	<u>0.3</u>
Total	<u>\$ 5.6</u>

*Chemicals sales exclude sales of GAF-Hüls Chemie GmbH.

**Chemicals income and identifiable assets include the Predecessor Company's 50% equity in the income and investment in GAF-Hüls Chemie GmbH.

**GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 9. Geographic Information

	First Quarter Ended April 2, 1989 (Millions)
Domestic Operations:	
Net sales*	\$170.6
Operating income	\$ 19.9
Other income (expense)	9.4
Income before income taxes and extraordinary items	\$ 29.3
Identifiable assets	\$891.0
Foreign Operations:	
Net sales**	\$ 68.7
Operating income	\$ 17.7
Other income***	3.1
Income before income taxes and extraordinary items	\$ 20.8
Identifiable assets***	\$194.6

*Domestic sales are net of transfers between geographic areas of \$24.1 million.

**Foreign sales are net of transfers between geographic areas of \$5.3 million.

***Foreign Operations income and identifiable assets include the Predecessor Company's 50% equity in the income and investment in GAF-Hüls Chemie GmbH.

Note 10. Commitments and Contingencies

The Predecessor Company had operating leases for transportation, production and data processing equipment and for various buildings. Future minimum lease payments for properties which were held under long-term noncancelable leases as of April 2, 1989 were as follows:

Twelve Months Ended April 2:	(Thousands)
1990	\$ 7,144
1991	4,488
1992	3,156
1993	2,004
1994	767
Later years	1,464
	<u>\$19,023</u>

The discussion as to legal matters involving the Company, and appearing in response to "Item 3. Legal Proceedings" is incorporated herein by reference.

**GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 11. Supplementary Income Statement Information

	<u>First Quarter Ended April 2, 1989</u> (Thousands)
Maintenance and repairs	\$11,349
Rental expense — operating leases	2,096

SCHEDULE V

G-I HOLDINGS INC.
PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1991
(Thousands)

Classification	Balance January 1, 1991	Additions at Cost	Retirements	Other (b)	Balance December 31, 1991
Land	\$ 47,893	\$ —	\$ —	\$ —	\$ 47,893
Land improvements	11,257	768	53	—	11,972
Buildings and building equipment	78,356	3,419	105	46	81,716
Machinery and equipment	366,943	36,862	2,359	(366)	401,080
Construction in progress	32,286	4,695 (a)	—	(58)	36,923
	<u>\$536,735</u>	<u>\$45,744</u>	<u>\$2,517</u>	<u>\$ (378)</u>	<u>\$579,584</u>

Year Ended December 31, 1990
(Thousands)

Classification	Balance January 1, 1990	Additions at Cost	Retirements	Other (b)	Balance December 31, 1990
Land	\$ 45,448	\$ 2,949	\$ 504	\$ —	\$ 47,893
Land improvements	8,205	2,916	80	216	11,257
Buildings and building equipment	72,335	6,790	1,277	508	78,356
Machinery and equipment	328,922	44,211	2,938	(3,252)	366,943
Construction in progress	33,449	(1,040) (a)	11	(112)	32,286
	<u>\$488,359</u>	<u>\$55,826</u>	<u>\$4,810</u>	<u>\$ (2,640)</u>	<u>\$536,735</u>

Nine Months Ended December 31, 1989
(Thousands)

Classification	Balance April 2, 1989	Acquisition of Predecessor Company	Additions at Cost	Retirements	Transfers To Other Accounts (c)	Other (d)	Balance December 31, 1989
Land	\$ —	\$ 59,154	\$ —	\$ —	\$(14,655)	\$ 949	\$ 45,448
Land improvements	—	7,386	850	77	26	20	8,205
Buildings and building equipment	—	75,047	5,805	77	(9,759)	1,319	72,335
Machinery and equip- ment	—	295,545	42,025	2,169	(8,064)	1,585	328,922
Construction in progress	—	46,581	(12,737) (a)	—	(395)	—	33,449
	<u>\$ —</u>	<u>\$483,713</u>	<u>\$35,943</u>	<u>\$2,323</u>	<u>\$(32,847)</u>	<u>\$ 3,873</u>	<u>\$488,359</u>

Notes:

- (a) Denotes net change during the period.
(b) Principally reflects sales of fixed assets.
(c) Includes \$29.3 million reclassification of assets in connection with the transfer of the GAF Surfactants Business (see Note 4 of Notes to Consolidated Financial Statements of the Registrant).
(d) Includes \$2.9 million related to the acquisition of Sutton Laboratories, Inc. (see Note 5 of Notes to Consolidated Financial Statements of the Registrant).

The ranges of annual depreciation rates generally were as follows (applied principally on the straight-line basis):

Land improvements	2½ — 20%
Buildings and building equipment	2½ — 33⅓%
Machinery and equipment	5 — 33⅓%

SCHEDULE VI

G-I HOLDINGS INC.
ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1991
(Thousands)

<u>Classification</u>	<u>Balance January 1, 1991</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Other</u>	<u>Balance December 31, 1991</u>
Land improvements	\$ 1,059	\$ 701	\$ 60	\$ 5	\$ 1,705
Buildings and building equipment	6,330	3,901	86	90	10,235
Machinery and equipment	38,762	26,993	1,894	1,302	65,163
	<u>\$46,151</u>	<u>\$31,595</u>	<u>\$2,040</u>	<u>\$1,397</u>	<u>\$77,103</u>

Year Ended December 31, 1990
(Thousands)

<u>Classification</u>	<u>Balance January 1, 1990</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Other</u>	<u>Balance December 31, 1990</u>
Land improvements	\$ 489	\$ 704	\$ 134	\$ —	\$ 1,059
Buildings and building equipment	2,497	3,838	69	64	6,330
Machinery and equipment	15,140	25,768	2,224	78	38,762
	<u>\$18,126</u>	<u>\$30,310</u>	<u>\$2,427</u>	<u>\$ 142</u>	<u>\$46,151</u>

Nine Months Ended December 31, 1989
(Thousands)

<u>Classification</u>	<u>Balance April 2, 1989</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Transfer To Other Accounts (a)</u>	<u>Other</u>	<u>Balance December 31, 1989</u>
Land improvements	\$ —	\$ 501	\$ 27	\$ 13	\$ 2	\$ 489
Buildings and building equipment ...	—	2,841	64	(310)	30	2,497
Machinery and equipment	—	17,700	1,977	(609)	26	15,140
	<u>\$ —</u>	<u>\$21,042</u>	<u>\$2,068</u>	<u>\$(906)</u>	<u>\$ 58</u>	<u>\$18,126</u>

Note:

- (a) Includes \$898 of accumulated depreciation reclassified in connection with the transfer of the GAF Surfactants Business (see Note 4 of Notes to Consolidated Financial Statements of the Registrant).

SCHEDULE VIII

G-I HOLDINGS INC.
VALUATION AND QUALIFYING ACCOUNTS

Year Ended December 31, 1991
(Thousands)

<u>Description</u>	<u>Balance January 1, 1991</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance December 31, 1991</u>
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts	\$ 3,800	\$ 857	\$ 832 (a)	\$ 3,825
Allowance for discounts	12,947	40,825	42,728	11,044
Reserve for inventory market valuation	5,571	1,977	4,268	3,280

Year Ended December 31, 1990
(Thousands)

<u>Description</u>	<u>Balance January 1, 1990</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance December 31, 1990</u>
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts	\$ 3,319	\$ 1,403	\$ 922 (a)	\$ 3,800
Allowance for discounts	11,732	36,151	34,936	12,947
Reserve for inventory market valuation	4,823	3,059	2,311	5,571

Nine Months Ended December 31, 1989
(Thousands)

<u>Description</u>	<u>Balance April 2, 1989</u>	<u>Acquisition of Predecessor Company</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Other (b)</u>	<u>Balance December 31, 1989</u>
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:						
Allowance for doubtful accounts \$ —	\$3,701	\$ 1,698	\$ 1,566 (a)	\$(514)		\$ 3,319
Allowance for discounts	—	6,269	18,159	12,696	—	11,732
Reserve for inventory market valuation	—	8,053	3,976	6,631	(575)	4,823

Notes:

- (a) Represents write-offs of uncollectible accounts net of recoveries.
- (b) Represents reclassification of assets of the GAF Surfactants Business (see Note 4 of Notes to Consolidated Financial Statements of the Registrant).

SCHEDULE V

GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)
PROPERTY, PLANT AND EQUIPMENT

First Quarter Ended April 2, 1989
(Thousands)

<u>Classification</u>	<u>Balance January 1, 1989</u>	<u>Additions at Cost</u>	<u>Retirements</u>	<u>Transfers Between Accounts</u>	<u>Balance April 2, 1989</u>
Land	\$ 8,928	\$ 5	\$ —	\$ (38)	\$ 8,895
Land improvements	13,870	221	—	(37)	14,054
Buildings and building equipment ..	77,346	1,236	473	(8)	78,101
Machinery and equipment	318,510	7,904	572	71	325,913
Construction in progress	50,002	(2,463) (a)	—	12	47,551
	<u>\$468,656</u>	<u>\$ 6,903</u>	<u>\$ 1,045</u>	<u>\$ —</u>	<u>\$474,514</u>

Note:

(a) Denotes net change during the period.

The ranges of annual depreciation rates generally were as follows (applied principally on the straight-line basis):

Land improvements	2½ — 6¾%
Buildings and building equipment	2½ — 33¾%
Machinery and equipment	5 — 33¾%

SCHEDULE VI

GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)

ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

First Quarter Ended April 2, 1989
(Thousands)

<u>Classification</u>	<u>Balance January 1, 1989</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Balance April 2, 1989</u>
Land improvements	\$ 5,088	\$ 132	\$ 15	\$ 5,205
Buildings and building equipment	29,978	763	203	30,538
Machinery and equipment	105,860	4,656	440	110,076
	<u>\$140,926</u>	<u>\$5,551</u>	<u>\$ 658</u>	<u>\$145,819</u>

SCHEDULE VIII

GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)
VALUATION AND QUALIFYING ACCOUNTS

First Quarter Ended April 2, 1989
(Thousands)

<u>Description</u>	<u>Balance January 1, 1989</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance April 2, 1989</u>
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts	\$3,988	\$ 70	\$ 357 (a)	\$3,701
Allowance for discounts	6,967	840	1,838	5,969
Reserve for inventory market valuation	6,164	1,855	366	7,653

Note:

(a) Represents write-offs of uncollectible accounts net of recoveries.

EXHIBIT INDEX

	<u>Page No.</u>
22. Subsidiaries of the Company	75

All other exhibits incorporated by reference as stated on
pages 21-22.

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disclosure.
Information Services, Inc.

**5161 River Road
Bethesda, MD 20816
(301) 951-1300**

**EXHIBITS
FOLLOW**

Significant Subsidiaries

<u>Subsidiary</u>	<u>Jurisdiction of Incorporation</u>
G Industries Corp.	Delaware
GAF Building Materials	Delaware
South Ponca Realty Corp.	Delaware
Merick Inc.	Delaware
GAF Broadcasting Co. Inc.	Delaware
Perth Inc.	Delaware
GAF Insurance Ltd.	Bermuda
GAF Chemicals Corporation	Delaware
International Specialty	
Products Inc.	Delaware
ISP Chemicals Inc.	Delaware
ISP Investments Inc.	Delaware
ISP Minerals Inc.	Delaware
ISP Technologies Inc.	Delaware
ISP Global Technologies Inc.	Delaware